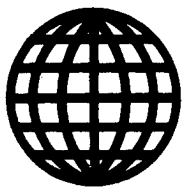


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17 NOVEMBER 1989



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# ***JPRS Report***

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# China

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## GENERAL

### Technology, Economy Accorded Key Roles in Deterrence

40050684A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 14, 23 Jul 89 pp 20-21

[Article by Wu Guifu 2976 2710 7450]

[Text] The great strides in modern science and technology and the rapid postwar expansion of the world economy have given impetus to rapid progress in military science and technology and to the renovation of weapons and equipment. This phenomenon is having an increasingly strong effect on the military strength of countries all over the world. Under present conditions, science, technology, and economics are making unprecedented breakthroughs with regard to their quantitative as well as qualitative position and function in the overall national defense resources. Scientific, technological, and economic factors are not only to a rather large extent deciding what levels of national strength each country can use to effect deterrence, but are also producing profound changes in the methods of deterrence. Looking at the strategic situation worldwide, scientific, technological, and economic factors are giving rise chiefly to the following new functions.

1. The focus of attention for effective military deterrence is beginning to be pushed toward outer space. Based on their advanced science and technology and on the strength of their rich economies, the two superpowers, the United States and the Soviet Union, have begun to reach the stage in mutual deterrence where they are contending for strategic military superiority in outer space. Former U.S. Secretary of Defense Caspar Weinberger has said, "Our strategy is to establish as quickly and as effectively as possible the strongest possible deterrent force so that Soviet leaders will be absolutely confident that they cannot use their huge military superiority to harm our vital interests." For this purpose, the United States has, since 1983 when it formally put forward its "Star Wars" plan, mobilized a massive pool of manpower and a vast amount of material and financial resources to speed up military high-technology research, giving top priority to development of strategic defense weapons. Moreover, "taking a giant step" toward building a preliminary antimissile system, the United States has already made breakthroughs in the crucial technical fields of electronic computers, micro-electronics, super high-power lasers, atmospheric stabilization [daqì buchàng 1129 3049 5943 0326], and electromagnetic artillery.

It is clear from all this that, just as the United States is presently striving for world supremacy on the "advanced frontiers" of strategic guidance, it is attempting to break the strategic balance of power it now maintains with the Soviet Union by speeding up the realization of its "strategic defense initiative," thus forming a new effective deterrence against the Soviet Union. However, the Soviet Union has also resolved to maintain its deterrent

capability at the level of strategic superiority needed to eliminate imperialist forces. It is countering U.S. power with its own science, technology, and economics, while advancing a strategy of "accelerated social and economic development," with the intention of improving overall national strength and continuing a new round of military competition for strategic superiority in space.

At present the Soviet Union is also in the process of investing a huge amount of manpower and material and financial resources to bolster military scientific research and giving precedence to developing strategic defense weapons. For the past 10 years, the Soviet Union has achieved remarkable success in the fields of strategic and tactical missile systems as well as conventional weapons systems and is about equally matched with the United States in development of directed-energy and particle-beam weaponry. What is more, it holds the lead in interceptor satellites and high-energy laser weapons. It can be seen from the above that the tendency of the superpowers in implementing mutual deterrence is to place their new competitive goals in outer space. It is amply evident from this that their huge capability for new deterrent resources has been formed from their highly developed science, technology, and economies.

2. The use of high technology is a new factor that is suddenly coming to the fore in the strategic arena of deterrence. In today's highly developed science and technology world, the means of deterrence in international relations are already tending to "soften." This focus manifests itself in numerous situations where the "intangible" effects of science and technology are showing up, in effect, as an increasingly important deterrent resource. It goes without saying, of course, that the obvious deterrence created by a military force composed mainly of troops, weapons, and equipment still has an important role in confronting an adversary. The unfolding of advanced science and technology already essentially constitutes the key element in developing national defense resources. Countries that possess the abundant strength derived from advanced science and technology by necessity also hold a deterrent position that should not be slighted.

In the present world, in addition to possession of advanced scientific and technological means of deterrence by the United States and the Soviet Union, Japan and Western Europe are also making rapid strides in this regard. In the eighties, West European countries put forward the "Eureka Plan" and had preliminary discussions about a "European strategic defense initiative," while Japan established its policy to "build the country through technology." In and of itself, proposal of these plans constituted a deterrent to the technologically advanced superpowers. Moreover, what is essentially most significant about this deterrence is the abundant overall national strength represented by a leading position in advanced technology, especially its huge potential for the military. In the fields affected by the world's new technological revolution, the might of any advanced technological breakthrough will exceed that of thousands



and thousands of cannons. Thus, modern science and technology can become a huge productive force for the civilian and military branches and can enable their products to show marked technical improvement.

For example, looking at Japan from just the aspect of military strength, we see that its armed forces have only 300,000 people, its naval tonnage and number of Air Force combat aircraft are limited, and it still receives U.S. nuclear protection. Its military deterrent capability abroad is, in effect, limited. However, if we consider its scientific, technical, and economic strength, it is a world-class great nation possessing superior means of deterrence. Japan already possesses a sufficient level of advanced science and technology to equal that of the United States. Some of Japan's most sophisticated military technology is already being furnished to the United States, and Japan has been taking part in SDI research. At present it has been promoting research for its own SDI and a conventional defense initiative, doing everything possible to bypass the nuclear weapons stage and enter directly into the development and manufacture of precision guided weapons. In 1987, Japan drafted a long-term spaceflight development plan covering the period of the 1990's through 2010, which included launching new types of large thrust rockets and a manned space station. In addition, in nuclear technology Japan has attained world advanced levels and could, in 3 to 6 months, manufacture an atomic bomb.

Looking to the future, it would appear that the trend will be for Japan's advanced science and technology, especially its military advanced technology, to continue to develop at a rapid pace. It stands third in the world in military expenditures, and a considerable portion of this amount is allotted to development of military technology. These facts are enough to prove that advanced science and technology as an exceedingly challenging means of deterrence are rapidly coming to the fore in the arena of international strategy. Furthermore, they are also promoting a more complicated structure of mutual deterrence between large countries and between national groupings.

3. Diversification in the development of deterrent resources is being promoted. Influenced by scientific, technological, and economic factors, countries of widely differing levels of actual power have, in exploiting their deterrent resources, skillfully played up their strong points and avoided their defects. The superpowers, the United States and the Soviet Union, Japan, and the developed countries of Western Europe use their overall strength as their means of deterrence, emphasizing its comprehensiveness in dealing with an adversary. Many medium-sized and small countries, especially the weak countries of the Third World, are still powerless in a test of overall national strength with the superpowers or developed countries. Therefore, these small and medium-sized countries have to use the concentrated power of a single aspect of their national strength as their main means of deterring an adversary. However, in exploiting and using single-aspect deterrence, these

countries have a number of different choices. The main ones fall into three categories.

First, there is the use of an important strategic resource as a deterrent. A typical case in point was the use in the seventies of the "oil weapon" by the Third World oil-producing nations. In January 1973, following the outbreak of the fourth Mideast war, Arab oil-producing countries used the oil weapon to deter Western countries siding with or giving aid to Israel. Western experts, commenting on the objectives that this type of deterrence was intended to achieve, said, "It goes without saying that the theory behind the oil weapon was to place the main pressure on Western countries, which would bring pressure on the United States. The United States, in turn, would then exert pressure on Israel, forcing it to accept a cease-fire favorable to the Arab cause."

Using the deterrence of the oil weapon to effect reduced production, increased prices, and a curtailing of transport was obviously an impressive show of power. First, it put the United States into a state of shock. The U.S. president at the time, Richard Nixon, in a television speech on 7 November, warned the people, saying, "We must confront an extremely obvious fact. We are about to face the most serious energy shortage since World War II. This winter our oil supply will be at least 10 percent short of our estimated need, and it could be as much as 17 percent short." Second, the scare factor produced by the oil weapon cast a shadow on U.S. relations with Western Europe and Japan, causing an extended split. Japan, 45 percent of whose oil comes from Arab countries, was forced to adopt a "new Middle East policy" whereby it broke off relations with Israel. Western European countries, one after another, also abandoned their total adherence to the U.S. stand on Middle East issues. U.S. Secretary of State at the time Henry Kissinger, after returning from Europe and Japan where he had gone to coordinate Middle East policy, lamented, "The oil crisis is causing political harm to U.S. relations with Europe and Japan."

Second, there is the use, as a means of deterrence, of the important strategic locations in one's own country or a strategic communications route that a country controls. Many small and medium-sized countries, mainly scattered throughout Asia, Africa, and Latin America, are in extremely important strategic locations. Of the 16 vital passages that the United States has announced that it needed to control, the majority were located in Asia, Africa, and Latin America. During the U.S.-Soviet rivalry throughout the world, these two countries have always taken very seriously the domination of those continental and maritime strategic points where vital communications routes converge. Many of the local wars that have occurred in Asia and Africa have had this type of rivalry deep in their background. Thus, to protect their independence and security, Third World countries coping with expansionist plots of the superpowers have begun to treat the control of vital strategic passages as a resource and means of deterrence. For example, Iran and Oman on 7 March 1974 issued an important joint

government communique concerning security and cooperation of the countries along the shores of the Strait of Hormuz. It pointed out that, "In order for their two countries, which have important interests in the Strait of Hormuz and in neighboring waters, to obtain stability, security, ease of navigation, and cooperation in all fields," the two governments, "unequivocally and resolutely oppose any outside power exerting influence in this region which would violate their national interests."

The reaction of Western commentators to the power of this type of deterrence was totally positive. They recognized, "There is no better place in the Third World than the Persian Gulf for clearly demonstrating the changing balance of power between small countries and large countries. The Middle East and its waterways are regarded as a key communications hub for Europe, Asia, and Africa. Historically, it has always been seen as one of the world's most strategically significant regions. The leaders of major countries from Alexander the Great of ancient times to such moderns as Napoleon, Hitler, Churchill, Stalin, and every U.S. president from Franklin Roosevelt to Jimmy Carter all recognized the strategic significance of the region."

Third, there is the use of economic integration to promote the gradual formation of a profitable common market, along with the use of common or collective interests as a basis for developing defense cooperation. The entire economy, coupled with military might, then constitutes a deterrent to possible outside aggression and interference. This form of deterrence includes both the display of the combined power of the entire military and the potential deterrence of the tremendous economic interests in the Third World. This should cause the large countries to realize that, in protecting and trying to expand their economic interests in the Third World, it would be foolish for them to use military intervention to cope with actions taken by small and medium-sized countries to safeguard national interests and rights. The effect of this form of deterrence on Western Europe and Japan has been quite obvious. It has been intensely manifested in the relatively enlightened policies they have carried out with regard to the Third World. It can be said that the three "Lome Accords" signed by the EC and a large number of Third World countries from Asia, Africa, and the Caribbean area are an illustrative and positive result of the effect of this type of deterrence.

## UNITED STATES

### Freedom in U.S. Should Not Be Over-Idealized

40050666A Beijing RENMIN RIBAO OVERSEAS  
EDITION in Chinese 21 Aug 89 p

[Article edited by Hu Jinhai 5170 6855 3189: "A Forum About 'Freedom' and 'Democracy' in the United States"]

[Text] Lecturer Wang [3769] at Shanghai Air Force Political Academy, who studied in the United States,

received an MA degree in American history. After graduation he spent 8 months doing research in more than 20 states in the United States. Once, in a class, he had some discussion with his students on questions of "freedom" and "democracy" in the United States. He pinpointed and analyzed the truth of the so-called "democracy" and "freedom" in U.S. society with his own experience and observations. The following is the dialogue at the forum.

### "Free Speech" Has No Audience

Student: Some people believe that there is "true free speech" in the United States. For example, ordinary people can exercise the right of "democracy" to criticize the president. Is it true?

Lecturer Wang: Yes, there are some people here who have idealized images of "free speech" in the United States. But I noticed while I was among the ordinary people in the United States that many Americans do not take so-called "free speech" seriously. If one praises them on "having the right of free speech," they would often say, "Who would listen to you?"

Student: Would you give us an example?

Lecturer Wang: (Pulling out a picture) This is a picture I took on the lawn in front of the White House while on a tour there. The old man in the picture held a sit-in demonstration near the lawn, with a board beside him reading, "Oppose the Reagan administration plan to raise military spending!" A policeman was standing nearby, but didn't do anything to him. Although he was there for quite a few days, no one paid any attention to him.

Student: Is it possible for people to express their concerns via the media?

Lecturer Wang: Usually, the media in the United States wouldn't care about the opinion of ordinary people. For example, the old man in the picture got angry and went to extremes because for a long time no attention was paid to him.

Student: Did he commit suicide?

Lecturer Wang: No, but after returning to school I saw him again on the TV news. He drove a truck to the Washington Monument and announced that his truck was loaded with explosives and would detonate at any minute. Many reporters flocked to the monument right away and covered the event live throughout the day.

Student: This piece of news was also reported in our newspapers then. But no explosion occurred and he didn't have explosives in his truck, did he?

Lecturer Wang: No, there were no explosives in his truck. After the reporters arrived, he realized that his purpose had succeeded; he came out of his truck and declared that the truck was not loaded with bombs. His purpose was to have the public listen to his opinion of Reagan's policy.

Student: Laws in the United States are said to be very rigorous and well-organized, is that the truth?

Lecturer Wang: There are lots of clauses in the laws of the United States of America and everybody can use them. Criminals often hire renowned lawyers to defend them and avoid punishment.

Student: Laws in America are fully developed. Does this mean the people have the security to exercise the rights of "democracy" and "freedom"?

Lecturer Wang: It is true that there are more clauses in the laws of the United States of America, but it is not necessarily true that the people have more freedom and democracy. I just mentioned that criminals can find loopholes because of the great number of clauses in the laws. It is known that a number of presidents have been assassinated. After President Kennedy was assassinated, a huge investigation team was formed, but it turned up nothing. The investigation of the attempted assassination of President Reagan, like many others, also drew a similar conclusion, being blamed on so-called "personal motives," "mental disorder," and so on. Even for presidents, law enforcement can provide so little protection that we should not overestimate the law's ability to protect the democratic rights and freedom of ordinary people.

#### Well-Made "Objective Report"

Student: It is said that Western journalists act on the "objective" principle and usually make "purely objective reports" instead of doing a lot of propaganda and persuasion in news reporting. How should we look at this?

Lecturer Wang: The American media are also under the control of various political and special interest groups. They have to coordinate with certain parties to survive. The only difference is that the methods they use are more intelligent. Talking about their anticommunist propaganda, it is no surprise that Americans, who know little about China, would be convinced. Even the young people here, who lack social experience, will accept their viewpoints unconsciously.

Student: Can you give an example to clarify the situation?

Lecturer Wang: For example, I once saw a TV special-feature program called *Mainland China*, by the most influential TV news in the United States, CBS. A TV camera crew from this company interviewed a certain Northeast PLA [People's Liberation Army] army unit. It first showed the soldiers' marches and target practice, which let people see the high morale of the Army. Then the camera turned to a meeting. The U.S. journalists asked the soldiers, "What will you do after the military service?" The first soldier stood up and answered aloud, "Obey the arrangement of the country!"; the second answered, "Obey the order of the Party!"; and so forth. While the audience couldn't help laughing out loud, an

off-screen voice said, "Please look, this is Mainland China. People there have become nuts and bolts on a machine. They have no personal democracy or freedom. Their speeches came out as if from one person..." The program stopped here abruptly. Who would suspect the reality behind this videotape? I, too, believe the soldiers interviewed are real. But it is necessary to have some experience in life and certain analytical ability to produce the right conclusion about whether it reflected the truth of Mainland China. After watching the TV program, I told some Americans at a forum, "The sole responsibility of a soldier is to dedicate himself to his country. How could the soldiers discuss 'What they will do' on such a serious occasion and in front of a bunch of blond-haired, blue-eyed, and high-nosed Americans with video cameras on their shoulders?" On the same subject, if they were with their parents, fiances, or close friends, they would have a lot to talk about. It is normal for everyone. But it is certainly biased propaganda the U.S. journalists concluded that, because of the answers of the soldiers, there was no democracy or freedom in Mainland China. It is obvious that it may still not be a truly "objective" report, even though it is recorded by video camera.

#### Do Not Idealize the Two-Party System

Student: Some people believe that it is very democratic for the United States to have a system where two parties compete against each other and take turns governing the country. How should we judge this idea?

Lecturer Wang: The present competitive situation between the Democrats and Republicans in the United States was not created to represent the principle of democracy. In fact, the term political party was not even mentioned in the U.S. Constitution. The bipartisan political system arose naturally under certain historic circumstances. When the United States of America was first founded, the system was not a two-party system. Instead of promoting bipartisanship, the founding father of the United States of America, President George Washington, repeatedly warned the American people about the danger of bipartisanship. As history evolved, first a group called the Federalists was formed, then an opposition was created, the Democratic Republicans. Soon after the Republicans split, the Whigs were formed. On the eve of the Civil War in 1854, an antislavery group again revived the Republican Party. Now, among the capitalist countries, some have multiparty systems, while some others have two-party systems or even single-party systems. These are not formed to represent the principles of "democracy" or "autocracy," but are formed under certain historic circumstances. The only right attitude toward this issue is that historical analysis should be made on all circumstances.

Student: Then, do the opposition parties exercise equal rights with the party in control in the United States? I mean election rights.

Lecturer Wang: Not at all. In the United States there are all kinds of other political parties besides the Democrats and Republicans. There is no way for these small parties to exercise equal election rights with the two largest parties. For example, the law in the United States requires one dollar of each citizen's tax bill to go to the election fund, but parties with support of less than 5 percent of the eligible voter population can receive no part of this money. Therefore, a third party has never developed in the United States.

Student: Do Americans believe that their two-party political system is the perfect representative of the principle of democracy?

Lecturer Wang: The Americans today do not necessarily appreciate the situation of two-party competition. I once discussed this topic with an American. He said that "you Chinese should never idealize bipartisanship. It is pretty good to have only one party, and people still can practice democracy under a one-party government." He also mentioned that the presidential election every four years is no more than two checks, heavy spending and lots of promises. The candidates try every way they can to get more votes and denounce the opposition parties' candidates. Usually, only half the eligible voters in the United States vote. The two-party system of the United States does not give the people the self-determination right, but only the right to select candidates. It is simply a system in which one "chooses the better of the two bad ones."

Student: Is there bureaucracy in the United States?

Lecturer Wang: Yes, and a lot. In the United States I often heard the American people complain about official bureaucracy. Once I discussed this problem with the director of a department in the McDonnell Douglas Company. He said, "Yeah, the administrative officials are real bureaucrats. Sometimes after a design is made, we cannot make any changes even though it can produce very high efficiency, because the top management set a rule that all modifications must have a proposal and an approval to proceed. Sometimes a proposal won't get approved for months, meanwhile better designs surpass the old one. But this time, we won't do anything because we will have to wait at least another half year!" There are examples not only of high efficiency in Western management, but also of bureaucracy. They themselves also complain about it. So don't idealize the West.

Many Western scholars or scholars of Chinese origin who have some deep experience in Western culture often see more problems in the Western world and have more appreciation of Oriental culture, and want to draw some useful materials out of Chinese and Oriental culture. At various conferences, both sides criticized their own culture and traditions and were exceptionally "modest." And both sides were surprised by the fact that either side had a very superficial knowledge of the other. It is a very interesting fact. I believe that nobody is perfect or without any merit, whether it is the West, the Orient, the United States, or China. We ought to make concrete and

practical analysis. We ought to look not only at the skyscrapers in the West and in the United States, but also behind their walls. Today, I purposely emphasized these questions in order to deliver the message, "don't idealize the West." At any rate, we must stand on the solid ground of China and gradually develop and perfect ours. We ought to learn from others' merit to compensate our own shortcomings, not just imitate others. Imitate others has no future!

### **Bush Stance Toward USSR 'Comparatively Positive'**

40050686A Beijing GUOJI WENTI YANJIU  
[INTERNATIONAL STUDIES] in Chinese  
No 3, 13 Jul 89 pp 29-33

[Article by Pan Tongwen 3382 0681 2429: "Discussion of and Trends in Bush Administration's Soviet Policy"]

[Text] The main object of this "discussion" was to evaluate the Soviet Union and the direction of its development. The keynote of the discussion report was circumspection. The Bush administration is implementing the Reagan administration's basic policy toward the Soviet Union. On wide-ranging issues it is testing Gorbachev, gradually "departing from" containment, and incorporating the Soviet Union into international society. From a look at the developing trends, the Bush administration's Soviet policy could become more moderate and more realistic. In the latter stage of the Bush administration, U.S.-Soviet relations could become more stable.

After Bush was elected president in November of last year, with the encouragement of his advisers he decided to hold a discussion of U.S. foreign policy, and the core of the discussion was to be a discussion of its Soviet policy. The discussion basically ended in May, following which we have a clear inkling of the Bush administration's Soviet policy.

#### **1. Bush's Objective in Discussing Soviet Policy**

Bush and Reagan are both members of the conservative faction of the U.S. Republican Party. When Reagan was president Bush was his vice president, and he conscientiously and faithfully pursued Reagan's foreign policy and never dissented. Why then, after he was elected president, did Bush decide to hold a discussion of U.S. foreign policy, including its Soviet policy?

In Reagan's administration, particularly in its last 2 years, mainly because of Gorbachev's initiative, plus the fact that the Reagan administration made corresponding adjustments to its policy, a clear state of relaxation appeared in U.S.-Soviet relations. There has been progress in all aspects of U.S.-Soviet relations, and progress has been especially marked in arms control. After twists and turns, the agreement on the total elimination of intermediate-range missiles was finally signed, and an understanding in principle was also reached on the elimination of 50 percent of the strategic nuclear weapons. The West's worry about and fear of the Soviet

Union have markedly lessened. In Western Europe there has appeared an international Gorbachev "craze." Voices demanding further disarmament and continued improvement of East-West relations are rising to unprecedented heights. This situation is universally welcomed by people, but it has also caused worry on the part of the conservatives and some strategists in the United States. They worry that, if Soviet superiority in conventional arms is still maintained, disarmament, particularly too much and too strong a nuclear disarmament, will adversely affect U.S. security and harm the West's deterrent strategy, in which it has persisted for many years, and that the Gorbachev "craze," which has already appeared, will basically shake the foundation of the Western alliance. They emphatically point out that the cold war is not yet over, the Soviet threat still exists, and the United States cannot relax its vigilance. They also think that Reagan was too warm toward Gorbachev and too eager for arms control, that U.S.-Soviet relations should not be put on a basis of relations between individuals, and that the United States should have a sober understanding of and long-term policy toward Gorbachev. These views and worries showed up in fairly concentrated fashion during the course of the U.S. presidential election last year, and among them were some views and worries of Bush's campaign advisers. Bush himself was also circumspect and cautious about East-West relations, and during the presidential campaign he once said that the cold war was not over and that he had many doubts about Gorbachev. It was precisely against this background that Bush decided to hold a discussion of U.S. Soviet policy.

From the above situation it may be seen that Bush's decision to hold a discussion on Soviet policy could imply consideration of a plan to change certain of Reagan's practices toward the Soviet Union, but it would not negate Reagan's Soviet policy or make a "fundamental revision" of it. The main objective of the discussion of Soviet policy was to explore the many major changes that have occurred under Gorbachev's internal and external policies, what were the true intentions of these changes, what opportunities these changes could bring to the United States, as well as to consider "how, from the angle of establishing more lasting U.S.-Soviet relations, to make use of these changes." In this regard, when speaking to reporters of the U.S. NEWSWEEK and U.S. NEWS AND WORLD REPORT at the end of January this year, Bush made a clear explanation. He said that "nobody could say for sure" "what the objectives of the Soviet Union's reforms really are," and that "we should persist in exploring" this question. Discussion of U.S. Soviet policy at the start of the Bush administration was to be "a wide-ranging evaluation of the Soviet Union and the direction of its development," which would determine for the Bush administration "what it could do to promote the process of reform in the Soviet Union and to spur the establishment of better U.S.-Soviet relations." One of the prominent figures who vigorously advocated the discussion of U.S.-Soviet policy was Scowcroft, Bush's national security adviser. He said that

the objective of the discussion of Soviet policy was to look ahead in order to use long-term viewpoints in the formulation of U.S. Soviet policy for the nineties and even until the end of this century.

In addition, it looks as though Bush wanted, through this discussion of Soviet policy, to achieve the following secondary objectives: 1) to show that the Bush administration had its own "individuality" and was not a complete copy of Reagan's administration in everything; 2) to stop the excessively high fever "craze" for disarmament and for Gorbachev, which appeared in the latter stage of the Reagan administration; 3) to unify understanding within Bush's foreign policy group, so that after a fixed date everyone in the group would be able to execute Bush's Soviet policy in fairly concentrated fashion; and 4) to deliberately place before Gorbachev the Bush administration's position of "not being eager" and "taking its time" with regard to U.S.-Soviet relations, in order to force up its "asking price" and pressure the Soviet Union to make concessions.

## **2. The Basic Situation in the Bush Administration's Report on Its Discussion of Its Soviet Policy**

The Bush administration's discussion of its Soviet policy, chaired by Robert Gates, U.S. deputy national security adviser, was jointly conducted by specialists of the Department of State, Department of Defense, Central Intelligence Agency, and other U.S. departments concerned with foreign affairs and by relevant experts of the National Security Council. The discussion concentrated on two aspects: evaluation of the Soviet reforms and trends in development and the countermeasures that the U.S. Government should take. The discussion report concluded that Gorbachev truly wanted to make reforms and that his reforms had caused "major changes in the politics and the economy" of the Soviet Union. Because the Soviet Union is now absorbed in internal problems, it hopes for a peaceful international environment; thus, the Soviet threat to the West will lessen, which suits the West's interests. However, the discussion report said that Gorbachev's objective in making the reforms was to get a "breathing spell" to prepare for further competition with the West in the future, or was to make changes in the direction of political and economic multipolarization. The report said there very great doubt exists as to whether the final results of Gorbachev's reforms will, in the final analysis, be misfortune or fortune for the United States. With regard to the questions of whether Gorbachev will succeed, how long he can hold power, and whether his successor will return to the old path, the participants in the discussion could not reach a clear conclusion. The discussion report suggested that the Bush administration maintain an attitude of quiet observation toward the Soviet Union, and neither help nor harm Gorbachev's reforms. However, they welcomed every one of Gorbachev's reforms and policy changes as being advantageous to the West. At the same time, on a series of issues like human rights, immigration, and arms control, they want to test Gorbachev's "new thinking" and want to cooperate with the Soviet Union in resolving

regional conflicts, opposing terrorism, preventing nuclear arms proliferation, and prohibiting drug smuggling. Generally speaking, the keynote of the discussion report was circumspection and it was rather conservative. It lacked prescience and new ideas, and did not put forward any major new proposal. Obviously, it was a product of compromise and accommodation of various viewpoints about the Soviet Union in the Bush administration.

What is noteworthy is that when the discussion report was nearing completion, Gates, who presided over its preparation, had a long article published in THE WASHINGTON POST of 30 April this year, in which he systematically explained his views on the Soviet Union and how to deal with it. Although Gates pointed out that "not to recognize that profound changes are occurring in the Soviet Union would be a terrible lack of prescience," and "we really see 'new thinking' in some domains, although in other domains, like Central America and the Middle East, the old ideas and old behavioral patterns remain unchanged." At the same time, he stressed that "our views on the Soviet Union are based on the nature of the Soviet system itself" and that Gorbachev's reforms had caused "significant major changes" in the Soviet system. He also thought that Gorbachev's reforms were in great difficulty and that "results are basically unclear, but it looks as though it may be affirmed that there will be protracted turmoil in the Soviet Union." He predicted that if Gorbachev fails his successor "could readopt the policy of confrontation," and he said that "we must be prepared for this." His conclusion was that "no matter whether Gorbachev succeeds or fails, or just maintains his existence, what we face in existing with the Soviet Union is competition and struggle." Gates' attitude toward the Soviet Union is more cautious and more conservative than the attitude in the discussion report. This attitude of Gates' is representative of the attitude toward the Soviet Union of the hardliners in the United States. Because of Gates' position, his influence on the Bush administration cannot be underestimated.

### 3. Reaction to the Report on Discussion of Soviet Policy

The discussion report was basically approved by Bush and his high-level foreign policy aides, but it was censured and criticized by public opinion in the United States and Western Europe. U.S. public opinion mainly criticized the Bush administration for not formulating a clear policy toward the Soviet Union that would meet Gorbachev's challenge at a time when profound changes continue to occur in the international situation. Public opinion worries that the excessive caution and circumspection of the Bush administration and its continuing to handle affairs under the old rules will mean the loss of an excellent opportunity to improve East-West relations. The editorial in the 2 April NEW YORK TIMES pointed out that "the changes occurring in the Soviet Union are fairly fundamental changes," "U.S.-Soviet relations are entering a new era," and the Bush administration should

make resolute efforts to use the unprecedented opportunity since 1945 provided by Gorbachev's "new thinking" in order to vigorously influence the development of events in the Soviet Union. Many U.S. experts on Soviet affairs said that, just when the Soviet Union has provided an excellent opportunity to consolidate global security, it is extremely mistaken for the Bush administration to be occupied with nothing and to while away its time. Most noticeable, perhaps, were the opinions of veteran U.S. diplomat Kennan, who had a major influence on U.S. foreign policy after World War II and who was the first to propose the containment of the Soviet Union. When testifying before the Senate Foreign Relations Committee on 4 April, he said that the changes occurring in the Soviet Union are "irreversible," "the time when the Soviet Union was looked upon as the West's principal potential military adversary has clearly passed," we should now regard and treat the Soviet Union as another great nation like other great nations; "its pursuits and policies do not seriously clash with those of the United States," and "they are not ones that cannot be resolved by compromise, adjustment, and other normal forms." He thought that Gorbachev was "the best general secretary" for the United States and that the United States should do all it can to support his reforms. Gorbachev recently put forward "some interesting and encouraging proposals," but the United States "basically did not respond." Kennan's talk was received by the Senate Foreign Relations Committee with rare high praise and long acclaim. Perhaps what was likewise spectacular was that former presidents Nixon and Reagan also expressed their dissatisfaction and criticism. Nixon thought that the Bush administration should, while maintaining its vigilance against the Soviet Union, make full use of the "historical opportunity" provided by the Soviet Union and "launch our own political offensive to achieve our strategic and geopolitical goals." Reagan expressed displeasure mainly with Bush's hesitation with regard to U.S.-Soviet relations. In brief, both U.S. liberals and conservatives disapproved of Bush's negative, passive attitude toward Gorbachev. Conservatives demanded that the initiative be taken to capitalize on Gorbachev's difficulties, spurring Gorbachev's further in the direction hoped for by the United States. Liberals advocated a positive response to every one of Gorbachev's initiatives and proposals, and bold measures to establish more cooperative and more constructive relations with the Soviet Union.

West European countries also were dissatisfied with the discussion report. The main reason was that they worried that Bush's negative, passive attitude toward Gorbachev would adversely affect Western Europe's further development of its relations with the Soviet Union. The views of Gorbachev by the West European countries, particularly Federal Germany, are far more positive than the view of the Bush administration. Western Europe thinks that profound changes have occurred in the Soviet Union's policies and that the Soviet threat has clearly diminished since Gorbachev came to power. West European countries have high hopes that the good relations

they have already established with the Soviet Union can continue to develop, but the realization of this aspiration on the part of the West European countries depends to a very large degree on the continued development of U.S.-Soviet relations.

#### 4. Change in Bush's Attitude

Bush basically agreed with the spirit of the discussion report, namely, treating the Soviet Union with circumspection. However, subtle changes are also occurring in this attitude, which is gradually tending to the positive. On 12 May at Texas A&M University, Bush delivered his first speech after becoming president, and also his first speech since completion of the discussion report on U.S. Soviet policy, and his keynote was basically identical with that of the discussion report. He stressed that the United States "certainly should not forget the Soviet Union's fearsome military capability," and, therefore, the United States "must maintain its strength." At the same time, he called on Gorbachev to further reduce unilaterally military forces, and he agreed with the position of letting "Eastern Europe exercise self-determination, dismantle the Iron Curtain, and put into practice a lasting system of political pluralism" in order to test Gorbachev's "new thinking," but he did not himself put forward any important proposals and measures to promote U.S.-Soviet relations. In this speech, although Bush said that "it is now time to depart from containment" and "we welcome the Soviet Union's return to international society," he touched on this only lightly and mentioned it in passing, and it was not the substance of his speech. In Bush's speech on 25 May at the U.S. Coast Guard Academy in Connecticut there was a distinct change in tone. In this speech he stressed that "we now look upon the Soviet Union as the focus of attention in everything. Our policy is to seize every opportunity to establish comparatively stable and good relations with the Soviet Union." Afterward, at the NATO summit held at the end of May, Bush put forward the first "bold" disarmament proposal since he took power, and on 2 June he told a WASHINGTON POST reporter that the Soviet Union could now be in "a state of fundamental change" and that "the United States and other Western countries should no longer make containment of a militarily aggressive Soviet Union their fundamental policy." He added, "Following the changes occurring in the Soviet Union, our own role will also switch from putting the main focus on deterrent forces to putting the main focus on the economy."

There are two main reasons for the change in Bush's attitude. The first reason is that Bush and his principal foreign policy advisers think that the series of proposals recently made by the Soviet Union, particularly the proposals on cutting conventional arms in Europe, are "significant and serious" and show that "the Soviet Union is now ready to cooperate." The second reason is that, influenced by public opinion at home and abroad, Bush has begun to realize that if he continues to take a negative, wait-and-see attitude toward Gorbachev he will "eat his own bitter fruit." Scowcroft has said,

"President Bush thinks that he previously overlooked the Soviet Union's proposals too much, and therefore he is now devising ways to take a comparatively positive attitude." The change in Bush's attitude toward the Soviet Union from a negative, passive attitude to a comparatively positive one, particularly the "bold" disarmament proposal he made at the NATO summit, has been universally welcomed, internationally and within the United States itself. To a very great degree it has changed Bush's negative image with regard to East-West relations, which he has had since he came to power, and has restored the United States' leading position in the Western alliance. It looks as if from now on Bush will not be completely bound by the discussion report and that he will, while not abandoning vigilance, continue to take a comparatively flexible, positive attitude toward the Soviet Union.

#### 5. Bush's Soviet Policy

The Bush administration will continue to implement the Reagan administration's basic policy toward the Soviet Union, upholding its position of strength, both competing and cooperating with the Soviet Union, and maintaining relaxation and dialogue. Proceeding from its present relatively advantageous position, the Bush administration will make full use of the Soviet Union's difficulties, "test Gorbachev's new thinking" on as wide a range of issues as possible, and pressure the Soviet Union to make the greatest concessions possible. At the same time, it will make use of the "principle of establishing contacts" to induce the Soviet Union to cooperate on some issues, and will "recompense" the Soviet Union for its compromises and concessions. The Bush administration can gradually "depart from" military containment of the Soviet Union, switch to drawing the Soviet Union into the "international society" led by the United States, and, in the new situation, spur the Soviet Union to continue to advance in the direction of making internal "reforms" and international withdrawals. On the arms control issue, the Bush administration will stress calling on the Soviet Union to make further large cuts in its military strength, reduce and make public its military budget, and switch its military principle to that of defense, and will, at the same time, switch the focus of arms control from nuclear weapons to conventional weapons. On the question of cutting strategic nuclear weapons, the Bush administration might call on the Soviet Union to make larger cuts in its land-based missiles, in which it is superior. On the question of the short-range missile talks, it will firmly oppose the "third zero option" plan, and insist that the talks be linked to cuts in Europe's conventional weapons. With regard to regional conflicts, the Bush administration will, on the one hand, continue to support and aid "guerrillas" in order to overthrow pro-Soviet regimes or weaken pro-Soviet forces; on the other hand, it will call on the Soviet Union to further draw back and to cooperate even more, reach agreements on methods of solution advantageous to the United States, and it is now emphasizing the demand on the Soviet Union to stop its military aid to



Nicaragua. On the Eastern Europe issue, the Bush administration will press the Soviet Union to relax its control so that Eastern Europe will evolve toward "political democratization" and "economic liberalization," which, at the same time, will not pose a threat to the Soviet Union's "legitimate security interests." It is very possible that a tacit agreement or understanding on this point will be reached with the Soviet Union. The Bush administration will continue to link U.S.-Soviet economic and trade relations with the questions of human rights and immigration in the Soviet Union. To promote concessions on these questions, the Bush administration will gradually relax its trade restrictions on the Soviet Union, encourage U.S. businessmen to go to the Soviet Union and run joint enterprises, temporarily suspend implementation of the Jackson-Wanike amendment, and permit the Soviet Union to gradually enter the international economic structure. However, within the near future it will not give the Soviet Union loans and will continue to strictly control the export of high technology to the Soviet Union. The Bush administration has already expressed the hope that some issues that involve U.S.-Soviet common interests—like the prevention of proliferation of nuclear weapons and ballistic missiles, opposition to international terrorism, prohibition of drug traffic, and protection of the environment—will be made the "fifth side" in U.S.-Soviet relations and be solved jointly. Obviously, the Bush administration will enhance its cooperation with the Soviet Union on these issues.

#### 6. Restrictions on Bush

With regard to relations with the Soviet Union, Bush on the one hand enjoys a relatively advantageous position carried over from the Reagan administration, and the other hand is also more restricted than Reagan was. First, Bush lacks the foundation of power and influence to control the factions within the Republican Party, and he constantly worries that he will be censured and criticized by the right wing. Part of the reason for Bush's expression of negativism and coldness toward the Soviet Union since he came to power was in order to placate the party's right wing. When Bush decides what attitude to take toward the Soviet Union in the future, he still must consider the opinions of this right wing and its possible reaction. Second, the two houses of the U.S. Congress are now controlled by the Democratic Party. To get the support of Congress and to make the two parties cooperate, Bush must regularly consult with the Democratic Party, and as much as possible adopt the viewpoints and positions of this party. Currently, the Democratic Party tends to have some positive attitudes toward the Soviet Union. This cannot but produce an effect on Bush. Third, the West European countries, particularly Federal Germany, call strongly for development of relations with the Soviet Union, and its tendency to do this on its own is more distinct. An example is the sharp contradiction between Federal Germany and the United States on the short-range missile issue. To bridge differences and unify positions in common dealings with the Soviet Union, the

Bush administration must regularly consult with the West European countries, and as much as possible adopt their viewpoints and meet their demands. Fourth, it is estimated that during Bush's term in office Gorbachev's peaceful diplomatic offensive not only will not stop, but could become more swift and fierce, to which the Bush administration must react, and also it cannot but once in a while take the initiative to put forward some proposals. Fifth, because the United States's national power is in relative decline, it will have to draw back from its overseas obligations; in addition, to deal with the increasingly fierce international economic competition, the United States has to pay more attention to promoting its domestic economy. This will spur the United States into being fairly willing to reach agreements or compromises with the Soviet Union on some issues.

In brief, it will be impossible for the Bush administration's Soviet policy to be fixed and unchanging. On the one hand, under the relatively favorable circumstances, and under the guidance of the foreign policy group, which deals comparatively more with concrete matters relating to its work, there will be considerable flexibility in the policy; on the other hand, under the influence of the above-mentioned conditioning factors, there will also be a good deal of compromise and wavering in the policy. From a look at the trend of developments, we see that, under the overall trend of general international relaxation, Bush's Soviet policy could become more moderate and realistic. Under the premise that the Soviet "new thinking" foreign policy will not change, in the later stage of the Bush administration it could reach more understandings and agreements with the Soviet Union than the Reagan administration did, and U.S.-Soviet relations could become more stable. Of course, this would be a gradual, complex process.

The Bush administration is precisely at the historical moment when U.S.-Soviet relations are beginning the transition to the "post-cold war period." The greatest challenge now facing the Bush administration is to take the initiative to adapt to the changing world situation, to actively make use of the opportunity provided by Gorbachev, to push forward the relaxed U.S.-Soviet relations that appeared in the later stage of the Reagan administration, and to strive, in a world in which the cold war has ended, to establish more positive and stable U.S.-Soviet relations. How Bush will meet this challenge can perhaps be answered only by Bush's future diplomatic practice toward the Soviet Union.

#### SOUTHEAST ASIA/PACIFIC

##### ASEAN Adjusts Foreign Policy To Reflect East-West Detente

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[Article by Lin Xiaozeng 2651 1321 1513: "ASEAN's Foreign Policy Adjustments to East-West Detente"]



[Text] Since last year, the ASEAN nations have been carrying out an important adjustment of their foreign policies as the international situation has changed. This adjustment is marked by several special characteristics. The ASEAN nations have gradually freed themselves from the influence of U.S.-Soviet rivalry, sought an early resolution to the Cambodian issue, improved relations with the nations of Indochina, accelerated economic development, augmented their economic power, given importance to using relations with big powers for the purpose of promoting a "balance of power" policy, and have placed special importance upon regional economic cooperation. This adjustment is certain to have a significant impact upon the situation in the region and upon various relationships there.

The fact that the United States and the Soviet Union have turned from confrontation to dialogue and East-West relations are turning from tension to detente has spurred an enormous change in the world's political climate. This has caused new developments in international relations in the Asian-Pacific region and in Southeast Asia. In order to adapt to the rapidly changing situation, ASEAN nations since last year have been carrying out important changes in their foreign policies. This article will make only a few inquiries into the background, major characteristics, impact, and future developments of foreign policy adjustments that have been made by the ASEAN nations.

### I. Background and Considerations

For a long time following the end of World War II, Southeast Asia remained under the influence of the cold war and was constantly in an unstable and tense state. Beginning in the 1970's, the superpowers (the United States and the Soviet Union) intensified their struggle to gain the upper hand in Southeast Asia, and the ASEAN nations were greatly harmed. In order to preserve national independence and promote economic development, the ASEAN nations proposed the establishment of a Southeast Asian region for peace, freedom, and neutrality. However, in the face of U.S.-Soviet confrontation, this beautiful wish could not be achieved. Because of such factors as social systems and ideologies, the ASEAN nations had very close relations with the West. Their foreign policies very naturally inclined toward the West, and they depended on Western support and coordination to preserve national independence and security, and to avoid "falling like dominoes." The security and stability of the ASEAN nations was directly threatened by the Soviet support of Vietnam's invasion of Cambodia, their establishment of military bases in Vietnam, the buildup of their military strength in Southeast Asia and increasing military activities there, and the intensification of Soviet infiltration and subversion of the ASEAN nations. The ASEAN nations were forced to depend further upon support from the United States and the West in order to check the expansion and threat of the Soviet Union. In the early 1980's, the ASEAN nations were dealt a serious blow by the economic crisis in the West, and they became aware of the dangers of

excessive economic dependence on the West. At one time they considered adjusting their foreign economic relationships. They attempted to aggressively cultivate relationships with socialist and developing nations while preserving their economic relationships with the major Western nations, in order to "supplement" what lacked. They emphasized their national economic interests and foreign economic relations. However, due to the intensified military confrontation between the United States and the Soviet Union in Southeast Asia and the fact that the Cambodian battlefield remained in a stalemate, the improvement of relations between the ASEAN nations and the Soviet Union and Vietnam met with serious obstacles, and it was difficult for them to achieve any breakthroughs. In the last two years, East-West relations have become more relaxed, and the situation in Southeast Asia has also changed. This has not only increased the necessity of a further change in foreign policy for the ASEAN nations, but has also provided new opportunities.

Under the current circumstances, the ASEAN nations are essentially faced with the following assessments and considerations:

1. With East-West detente and the improvement of Sino-Soviet relations, a turning point has been reached in the international relations of the Asian-Pacific region, and changing conditions have begun to work in favor of stability and development among the ASEAN nations. According to the assessments of the ASEAN nations, military conflict between the United States and the Soviet Union in the Asian-Pacific region will not come to a complete halt for some time, but its effects will gradually diminish, and U.S.-Soviet competition in the arenas of trade and foreign relations will become more intense. The central issue that the ASEAN nations must consider in formulating policy include: How to take advantage of the situation to adjust their security strategies and foreign policies; how to resolve or cool off hot spots and potential hot spots in the region; and how to deal with rivalry between powerful countries, as well as take advantage of it in order to reap the greatest benefits for stability and development among the ASEAN nations.

2. "The weakening of ideology." The trend toward strengthened international cooperation has opened up a broader array of opportunities for foreign policy adjustment by the ASEAN nations. The ASEAN nations feel that there is noticeably less division of the world into opposing "camps," and that even though ideological differences will probably continue to exist into the next century, they will have less and less impact upon foreign relations. Furthermore, with the reform and opening up of the socialist countries and the further development of interdependence among all nations, "ideology will give way to economics in international relations." Faced with this trend, the ASEAN nations are considering how to avoid wasting this chance to develop relations and strengthen cooperation with a wide range of countries, especially with the socialist countries.

3. With respect to their economies, the ASEAN countries are facing a critical situation. There are both excellent opportunities for development and challenges and difficulties. 1) The Asian-Pacific region is in the midst of a period of rapid development. For the ASEAN nations, a fundamental question is how to take advantage of these favorable conditions to make their national economies fly high in the 1990's. 2) The economic power of the United States is declining, Japan's position is climbing, and U.S.-Japanese economic confrontation and friction is growing worse. This is both advantageous and disadvantageous to the ASEAN nations. How to take advantage of confrontation between the United States and Japan while overcoming its negative effects is an extremely important issue for the ASEAN nations. 3) Trade protectionism in the West is growing stronger, and the Western economy will sooner or later reach a new crisis. This is a threat to ASEAN exports. For this reason, there is an urgent need for ASEAN nations to adjust their economic and foreign trade structures, and to search for new outlets. 4) There are two trends developing among the nations of the Asian-Pacific region: one toward more economic competition, and the other toward more economic cooperation. What measures should be adopted to deal with the development of these two trends? How is one's own position to be strengthened and raised? How is each nation to obtain the greatest possible benefits? These are practical issues for the ASEAN nations, and they are long-term tasks. As they face this critical economic situation, the ASEAN nations cannot afford not to consider measures to adapt to the situation.

## II. The Primary Characteristics of Policy Adjustment

All the ASEAN nations are aggressively adjusting their policies on foreign relations and economics on the basis of the assessments and considerations discussed above. In general, the adjustments have been relatively thorough, and they have been carried out across a relatively broad spectrum. Although the foreign policy of each ASEAN country has its peculiar qualities and emphases, taken as a whole, the adjustments exhibit the following characteristics:

1. The ASEAN nations have gradually freed themselves from the influence of U.S.-Soviet rivalry, strengthened their independence and autonomy, and distanced themselves from the United States while building up their relations with the Soviet Union. The reliance of the ASEAN nations on the United States has changed, and confrontation and friction have developed as U.S.-Soviet relations have relaxed and the political, military, and economic position of the United States in the Asian-Pacific region has declined. Even Thailand and the Philippines, which are allies of the United States, and Singapore, which has relatively close ties to the United States, have all shown clear signs of distancing themselves from the United States. They have emphasized their own national interests, and pursue foreign relations directed toward all points on the compass. President Corazon Aquino declared that the Philippines will implement a policy of "peace and cooperation" with all

countries. Prime Minister Chatchai Chunhawan then declared that Thailand was pursuing "a policy of neutrality." The ASEAN nations have dared to square off with the United States on a series of problems, including the U.S. military bases in the Philippines, agricultural price cutting by the United States, and U.S. trade protectionism. All sectors of Philippine society have come to understand the United States more clearly as a result of the experience they have gained in recent years. They have come to see clearly that there is a close relationship between U.S. interference in the domestic affairs of the Philippines and the maintenance of their military bases in that country. Nationalism has risen to an unprecedented level, and dissatisfaction with the United States grows daily. Singapore took the step of expelling a top-level secretary from the U.S. Embassy there in order to protest U.S. meddling in its internal affairs. Indonesia has further highlighted the nonaligned nature of its foreign policy in order to raise its status among the nonaligned nations. In defense-related matters, faced with declining U.S. military influence in the region, the ASEAN nations have hustled to strengthen their own defenses, and they are now exploring ways to further strengthen cooperation among themselves in defense affairs. With regard to military supplies, the ASEAN nations are doing all they can to reduce their one-sided reliance on the United States. For example, Malaysia purchased military weapons and supplies worth \$2.5 billion from England, and Thailand purchased some weapons and supplies from China. At the same time, the relations of the ASEAN nations with the Soviet Union have shown a marked improvement. The prime ministers of Malaysia and Thailand have both visited the Soviet Union, and the presidents of Indonesia and the Philippines may both visit the Soviet Union sometime late this year or early next year. Furthermore, Soviet leaders have made frequent visits to the ASEAN nations during the last 2 years. In addition, the ASEAN nations have given a positive appraisal to the new thought process of Gorbachev, and they have expressed approval of the Soviet Union's new policy vis-a-vis the Asian-Pacific region. The ASEAN nations strongly hope that the Soviet Union will stop supporting the Vietnamese invasion of Cambodia, and they hope that the Soviets will take practical measures to slow their arms race with the United States in the Pacific region. However, due to the fact that the Vietnamese troop withdrawal from Cambodia has essentially been assured, the ASEAN nations no longer look upon the Soviet Union as a real threat. The ASEAN nations have adopted aggressive plans to develop economic relations with the Soviet Union and Eastern Europe. It has not been easy for economic relations between the two parties to develop very far because the mutual benefits have been small and because hard currency is lacking, but in terms of trends, trade between these parties is increasing, and investment in the ASEAN nations by the Soviet Union and Eastern Europe has gradually developed.

2. They are aggressively pursuing a good-neighbor policy, seeking an early resolution to the issue of Cambodia, and improving relations with the nations of Indochina. Since East-West relations turned from confrontation to detente, the most conspicuous change in the Southeast Asian region is the fact that the ASEAN nations have ceased their confrontation with Vietnam, aggressively promoted political and economic relations with the nations of Indochina, and taken relatively flexible measures to deal with the issue of Cambodia. Indonesia, with the support of the other ASEAN countries, has held two informal meetings in Jakarta on the Cambodian problem, and recently organized a meeting in Jakarta among the leaders of each of the political factions in Cambodia. Indonesia has made a great effort to encourage finding a solution through compromise. Thailand has publicly announced that improving relations with the nations of Indochina is its top foreign policy objective. Thailand has not only taken a large step toward improving its relations with Laos, but has also moved the timetable a long way forward by conducting diplomatic relations with Vietnam and the Cambodian puppet regime. Prime Minister Chatchai visited Laos not long after assuming office, and he plans to visit Vietnam before the year is out. Although Thailand has not recognized the puppet regime in Phnom Penh, Hun Sen has been to Bangkok twice on unofficial visits, and both parties engaged in discussions on the Cambodian problem and trade issues. The Philippine foreign minister visited Vietnam last year and discussed the issue of the two countries' military bases and the issue of China's Spratly Islands. This illustrated their willingness to aggressively seek improved relations.

3. Economic development has become the primary objective and point of departure of the ASEAN nations' foreign policy and national security strategy. Under today's new conditions, the ASEAN nations emphasize the importance of raising their overall national strength. To that end, the most important task is to accelerate economic development and strengthen their economies. They feel that economic development requires a stable environment, yet only after the economy has become developed can real stability be achieved. Therefore, the ASEAN nations, even more now than in the past, emphasized foreign economic relations, and they have clearly stated that foreign relations serve the purpose of economic development. Immediately upon taking office, Prime Minister Chatchai announced the policy of "converting the battlefield of Indochina into a marketplace." This highlighted a change in Thailand's foreign policy objectives. In truth, the ASEAN nations are competing hard with each other in their efforts to improve relations with the nations of Indochina, and it is all in hopes of reaping benefits in the Indochinese marketplace at the earliest possible date. In addition, in accordance with their plan to diversify, the ASEAN nations are aggressively strengthening relations with the Soviet Union, Eastern Europe, and the countries of Latin American, in order to expand markets and sources of capital. Even so, the ASEAN nations do not overlook the fact of their

primary economic reliance on the United States, Japan, and Western Europe. With respect to these developed, industrialized countries, the ASEAN nations are working hard to handle the competitive and cooperative aspects of their relations with these countries. They are aggressively promoting cooperation, while strengthening communications and seeking to resolve the confrontations and conflicts present in their economic relationships.

4. They place more importance on promoting their "balance of power" by taking advantage of the relationship between four big powers: the United States, the Soviet Union, China, and Japan. The ASEAN nations feel that, at present, U.S. and Soviet military power still occupies a decisive position, but in terms of overall strength, four big powers (the United States, the Soviet Union, China, and Japan) have the most influence. It is not the plan of the ASEAN nations to keep out the influence of these powerful countries, but to "welcome" the four big powers to enter the Southeast Asian region, while preventing any single party from gaining a dominant position. The ASEAN nations are attempting to take advantage of the conflicts between the four big powers by playing them off against each other, thereby obtaining the maximum benefits for the ASEAN nations' stability and development. The establishment of a Southeast Asian zone of peace, freedom, and neutrality is still a major goal of the ASEAN nations, but it appears that they are not in a hurry to achieve it at present. This is due in part to the fact that the conditions are not yet ripe, and in part to the fact that the ASEAN nations intend to make it a long-term focus of struggle in order to win for themselves an advantageous position in the midst of a "balance of power" among the four powers. The ASEAN nations have not demanded that the United States withdraw its military bases in the Philippines, or that the Soviet Union withdraw its military base in Vietnam. This, apparently, is because they want them to counterbalance each other. With respect to their economies, the ASEAN nations are still not capable of divorcing themselves from the United States, but they are relying on China and Japan to bolster their ability to resist the United States. The ASEAN nations want the United States and Japan to prevent rapprochement between China and the Soviet Union from going too far, and also want to use China and the Soviet Union to bolster their ability to resist the United States and Japan. ASEAN relations with Japan are becoming closer and closer. They rely more and more upon Japan for markets, capital, and technology, but they also fear that Japan may develop into a military power, so they are using China, the Soviet Union, and the United States to restrain Japan's inclination to resurrect militarism.

5. They are placing more importance on regional economic cooperation. The ASEAN nations, after a ten-year hiatus, held the third meeting between their heads of state early last year. They held intensive discussions on the strengthening of economic cooperation within the region, decided to further promote plans for cooperation, and formulated goals and plans to be achieved

within 5 years. The ASEAN nations have adopted a plan, aggressive in posture and cautious in action, to deal with the accelerating trend now developing which is spurring regionalization and the formation of blocs in international economic relations. The ASEAN nations support regional cooperation in principle, but oppose the formation of exclusive blocs. With regard to priorities, the ASEAN nations place the highest importance upon internal cooperation. The ASEAN nations are all members of the Pacific Economic Cooperation Conference (PECC) and they are active participants in that organization's activities. However, the ASEAN nations have made it a point not to let their cooperative activities within the PECC surpass those within their own organization. They also insist that the PECC remain unofficial in nature and loosely organized so as to prevent being controlled and manipulated by the United States and Japan. They are dealing cautiously with proposals by Japan, Australia, and the United States regarding an "economic circle," an "Asian-Pacific Economic Cooperation Forum," and a "U.S.-ASEAN free trade zone."

### III. Effects and Trends

The foreign policy adjustments carried out by the ASEAN nations could be said to be quite thoroughgoing in comparison with those of earlier times. Nevertheless, within a larger context, they have clear limitations. Because they are subject to various restraining factors, it will not be easy to determine their effectiveness in the near future. However, in general this will not cause the ASEAN foreign policy adjustments to come to a halt. Circumstances are still changing, and ASEAN foreign policies will necessarily continue to change in response. The foreign policy adjustments of the ASEAN nations are adopted in response to the demands of changing circumstances, and at the same time must necessarily have a significant impact on conditions and relationships within the region.

The primary factor restraining adjustment of foreign policy by ASEAN nations is the balance of political forces and degree of consensus within individual ASEAN countries. Under rapidly changing circumstances, all sectors of society have tended to speak out vociferously on the changing conditions, and their opinions have generally been quite diverse. This has added to the restraints. The key is whether leaders are capable of using new thought processes to observe changing circumstances, and whether they can keep the interests of their nations and citizens in sight in building consensus and formulating (in a timely manner) policies that are appropriate to the circumstances.

The effectiveness of foreign policy adjustments by ASEAN nations depends primarily on objective conditions, which is to say that they depend on the reaction of the relevant countries, and the extent to which they accept the changes. In this regard, several factors can be discerned which are negative or not very advantageous. The resistance and difficulties are not small.

The ASEAN nations are making great efforts to free themselves from the influence of U.S.-Soviet rivalry. However, even though tensions in Southeast Asia are easing, rivalry between the United States and the Soviet Union over Southeast Asia has not come to an end. The U.S. military bases in the Philippines and the Soviet military base in Vietnam are set against each other. Military forces of the United States and the Soviet Union are arrayed all around the ASEAN nations' perimeters. Under these conditions, it will probably be very difficult for the ASEAN nations to truly free themselves of the influence of U.S.-Soviet rivalry.

The power of the United States in Southeast Asia is shrinking from previous levels, but in the final analysis it is still dominant. Its military, political, and economic influence still far surpasses that of the Soviet Union. The United States does not actually welcome the current foreign policy adjustments of the ASEAN nations, but it has, in fact, perceived the changes in ASEAN and has shown signs of uneasiness. Immediately after the Bush administration was formed, Vice President Quayle was sent to visit Indonesia and Thailand. It was reported that Quayle's primary objective for this trip was to familiarize himself with conditions in order to facilitate formulation of a policy on the issue of Cambodia. During his visit he emphasized two points: First, the United States intends to provide military assistance to the noncommunist resistance forces in Cambodia. Second, the United States is resolutely opposed to participation by the Khmer Rouge in a temporary coalition government in Cambodia. Foreign Minister Siddhi Savetsila made the trenchant comment that it was "too little, too late." Quayle's second point was apparently at odds with the proposals of the ASEAN nations, and in line with the position of Vietnam and the Cambodian puppet regime. Therefore, the true purpose of Quayle's trip has necessarily caused suspicion. Apparently "the drinker did not raise his cup merely to taste the wine," that is, he had ulterior motives. What the United States was really concerned about was restraining the ASEAN nations and preventing them from escaping the orbit of U.S. policy. However, the situation has changed. Foreign Minister Siddhi Savetsila has emphasized many times recently that "our policy does not take its cues from the superpowers, but is based on the interests of our own country." This fully illustrates the desire and determination of the ASEAN nations to achieve independence and autonomy.

The position of the Soviet Union in Southeast Asia has improved greatly, but the ASEAN nations are still watching to see whether they will be able to take concrete steps to fulfill their promise to improve relations. They are also watching to see whether the Soviet Union will be able to take steps to bring an end to its military rivalry with the United States in Southeast Asia, slow the arms race, and further ease tensions.

The ASEAN nations hope to bring about an early settlement of the Cambodian problem and bring peace and cooperation to Southeast Asia by adjusting their foreign

policy toward the nations of Indochina. The Vietnamese authorities welcome this development, but they have assessed the situation incorrectly, and have come to believe that they have achieved their most advantageous bargaining position ever. They have confidently raised their demands with regard to the Cambodian issue, and this has increased the complexity of reaching a political settlement to the Cambodian issue. Now, although Vietnam has announced its intention to withdraw its troops from Cambodia, it continues to create obstacles to the establishment of international oversight and a temporary Cambodian government. Vietnam has also raised many quibbling points about the military organization of the prospective Cambodian government, attempting thereby to protect as much as possible the vested interests which have benefited from the Vietnamese invasion of Cambodia. Therefore, a fairly long period of struggle is required for the achievement of a political solution to the Cambodian issue. It is noteworthy that Vietnam has adopted a false posture of friendliness, actively going along with ASEAN and stating that they are close to the ASEAN nations, friendly, amicable toward them, and will cooperate with them. Vietnam has changed its previous cant, saying that it wants to support ASEAN, wants to join ASEAN, and wants to be a part of the "golden peninsula" project, which centers upon Thailand. Vietnam also proposes that, while the settlement of the Cambodian issue is being worked out, a Southeast Asian zone for peace, freedom, and neutrality should be established, as well as a Southeast Asian nuclear-free zone. However, the ASEAN nations have dealt with Vietnam for a long time and are thoroughly familiar with Vietnam's habit of breaking its word and changing its mind. Vietnam's current performance is not taking any of them in. On the one hand Vietnam wants to withdraw its troops, while on the other hand it insists that "there were good reasons for its invasion." It is unwilling to admit that its invasion of Cambodia was a mistake, and it refuses to learn any lesson from this experience. How is this state of affairs going to convince anyone that Vietnam is truly ready to change its ways, or to really give up its policy of expansion and hegemony in Southeast Asia? This showing by Vietnam is an important factor restraining the ASEAN nations' foreign policy adjustment.

The ASEAN nations intend to further promote the policy of maintaining a "balance of power" among the four big powers, the United States, the Soviet Union, Japan, and China. They want the big powers to have an effect upon the region. They intend to handle relations among the big powers, and between the big powers and themselves, in an appropriate manner. It is beyond doubt that these objectives are accompanied by complications. None of the four big powers can fail to consider the ASEAN factor, or neglect to respect and look after ASEAN interests, in handling its relations with the other big powers. Furthermore, while handling relations with the ASEAN nations, no big power can fail to consider the relations of the ASEAN nations with the other big powers. However, the so-called "balance of power" among the four big powers cannot actually be achieved. Imbalances are certain to occur. In terms of trends, the influence that China and the Soviet Union are capable of exerting upon this region is limited by their social systems and national power. The primary reliance of the ASEAN nations on the United States and Japan cannot change for a long time. To compare the United States and Japan, the military and economic power of the United States in this region are declining in relative terms. Meanwhile, Japan's economic power is rising apace, and its economic and political influence in the region is expanding rapidly. Within a few years, Japan may be the largest trading partner and top supplier of foreign currency and loans to the ASEAN nations, and its influence in Southeast Asia could surpass that of the United States.

One of the most important foreign policy goals of the ASEAN nations is the plan to establish a Southeast Asian zone for peace, freedom, and neutrality. However, this is going to require a rather long period of sustained effort and cannot be accomplished overnight. At present, the ASEAN nations hope to bring the nations of Indochina within their own orbit, while Vietnam hopes to take advantage of this opportunity to exert its influence upon ASEAN. The issue of participation by the nations of Indochina in ASEAN is going to take some time, but once the Cambodian issue is resolved, cooperation and links between them could be strengthened, and the trend toward more interpenetration could develop further. In the long run, the interests of the people of Southeast Asia call for stability and development. The concept of a Southeast Asian zone for peace, freedom, and neutrality will in the end be realized.

### Character, Background Profile of Song Ping

40050633A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 202, 16 Jul 89 pp 36-42

[Article by Song Lijun 1345 7787 0689: "Does Song Ping  
1345 1627 Dare Take on the Big Boys?"]

### [Text] Song Ping [1345 1627] Becomes Member of the Standing Committee of the Chinese Communist Party Politburo

In November 1987, after the 13th National Party Congress, Song Ping was appointed a member of the Chinese Communist Party's Politburo.

In June 1989, at the 4th Plenary Session of the 13th CPC Central Committee, the 72-year-old Song Ping was elevated to membership in the Standing Committee of the Politburo.

### After Being Tempered in the January 29th Student Movement, He Joins the Communist Party

Song Ping was born in July 1917 and is from Ju Xian in Shandong. According to the method of specifying seniority customary in the Communist Party, like Yao Yilin [1202 5902 2651], currently a member of the Politburo and vice chairman of the Standing Committee of the State Council, and Huang Hua [7806 5478, who has already retired to the second rank, he was among the January 29th cadres. He and Yao Yilin are not only the same age, but were also studying at Qinghua University in Beijing at the time. The differences are that Yao Yilin joined the party earlier, and at the time of the January 29th Movement was already an official in the underground Communist Party branch at Qinghua University and was one of the mainstay leaders of that student movement which shook the world. Song Ping enrolled in the College of Agriculture at Beijing University in 1934, enrolled at Qinghua in 1935 and at the time of the January 29th student movement was still an ordinary participant. At that time Song Ping joined the anti-Japanese patriotic movement out of passionate anti-Japanese feeling and only later drew gradually closer to the Communist Party, subsequently joining the Communist Party in December 1937.

After the January 29th Movement of 1935, a large group of progressive young students fled to the "red areas" and trained cadres in various fields for the Chinese Communist Party during the anti-Japanese war. In 1938, Song Ping went from North China to Yanan and studied in the Central Party School and the Marxist-Leninist Academy. Subsequently, he worked in the administrative office of the party school as head of the organization department, head of administrative affairs, and was also researcher in the party affairs research office.

### He Gradually Matures Under the Tutelage of Zhou Enlai

In his growth and development in the Chinese Communist Party, Song Ping benefited to a considerable degree from Zhou Enlai's nurturing and cultivation.

Under conditions of cooperation between the KMT [Kuomintang] and the CPC and the all-out War of Resistance, at the 6th Plenary Session held from September to November 1938, the CPC corrected the errors of the Wang Ming line and decided to establish a southern branch with Zhou Enlai as secretary to be responsible for the united front with the KMT and other party factions and for other work in the KMT areas as well as management of work in the occupied areas and Hong Kong and Macau. At the end of 1938, Zhou Enlai came to Chongqing as chief representative of the CPC to establish an office and, in addition to being responsible for talks with the KMT, also personally took in hand the work of the southern bureau and XINHUA RIBAO. As the work developed, the CPC transferred a group of cadres from the Yanan group to Chongqing. Song Ping was a member of this group and after reaching Chongqing, became assistant secretary of the Propaganda Department of the southern branch.

### No 50 Zengjiayan

The office of the CPC delegation in Chongqing was at No 50 Zengjiayan [2582 1367 1484]. At the time people called it "Zhou's residence." "Zhou's residence" backed up against the Jialingjiang. The residence of Dai Li [2071 4567], the head of KMT espionage was nearby, and in the neighborhood there were also many signs for KMT army, police, military police, and special agents. In addition, according to the reminiscences of Xu Dixin [6079 3321 2450] before his death, "There were three floors in No 50. Downstairs and on the third floor is where our comrades lived. For a time, Comrade Zhou Enlai lived downstairs, but he later moved to the third floor. And the second floor? None other than special agents of Dai Li's command were entrenched there."

### Steeling Oneself in a Complex Environment

At the time, founding fathers Dong Biwu [5516 1801 2976] and Zhou Enlai were together responsible for the work of the southern branch. Subsequently, in a quatrain of seven-words to the line, he described the situation at No 50 Zengjiayan. The poem reads:

"During the 8 years of the War of Resistance we  
stayed here,  
The "sandaweizhi" [0005 2092 4850 2388] joke  
remained fresh.  
"Dai Li was our neighbor to left and right,  
Always saw people pass the door north and south."

The "sandaweizhi" in the poem is a transliteration of the English word "sandwich." In Hong Kong, it is written "sanwenzhi" [0005 2429 2388], that is, meat between two slices of bread. It was used to describe how Chinese

Communists lived upstairs and downstairs, while the second floor was used by the KMT special agents, and the description is very apt.

For Song Ping, who was in his early 20's at the time, working in this complex environment was very good training. He became agile, clever, and prudent in his handling of affairs and both his vigilance and tactical nature were high. Zhou Enlai, in particular, was himself rigorous, conscientious, meticulous, and thoughtful in his work, and he was strict in his demands on his subordinates and taught them with skill and patience. Under the tutelage and example of this important Chinese Communist figure, Song Ping progressed rapidly.

Soon, Song Ping was transferred from the southern bureau to XINHUA RIBAO, where he began as director of the reference room, was later promoted to chief secretary of the editorial department, and finally was appointed secretary general, and for a time was in charge of the Chongqing branch of the XINHUA NEWS AGENCY.

#### **As Zhou Enlai's Political Secretary in Nanjing**

In May 1946, after the victory in the War of Resistance, the KMT moved back to Nanjing. Due to the demands of work, the CPC delegation also moved at the same time. After Song Ping arrived in Nanjing, he left the news unit and transferred to work for the CPC delegation as Zhou Enlai's political secretary. This arrangement shows that at the time he had earned the trust and respect of Zhou Enlai.

The offices of the CPC delegation in Nanjing were at No 30 Meiyuanxincun [2734 0954 2450 2625]. Like No 50 Zengjiayan in Chongqing, here they were also surrounded by KMT special agents. In addition, since the civil war had expanded, the contradictions between the KMT and the CPC intensified, the area of the delegation's contacts became broader, and the working environment also became increasingly adverse. At the time, Zhou Enlai was conducting talks with the KMT that required the handling of very complex and important political issues; the work was very intense, frequently continued around the clock, and they often went without sleep. As political secretary, Song Ping helped Zhou Enlai deal with some specific affairs and was naturally also extremely busy. This experience brought Song Ping into contact with core secrets and he learned the tactics and skills of dealing with major political issues. This prepared favorable conditions for the high-level leadership positions subsequently held by Song Ping.

Because KMT-CPC talks broke down and the civil war was heating up, in November 1946 Zhou Enlai returned to Yanan and joined in the work of the Central Committee leadership. Song Ping as well concluded this stage of his career of work in the KMT-controlled areas.

#### **Transferred to Urban Work in the Northeast**

Once the civil war began, the situation in the northeast was most favorable for the CPC. Such important CPC members as Lin Biao [2651 1753], Peng Zhen [1756 4176], Lo Ronghuan [5012 2837 2719], Gao Gang [7559 1511], and Chen Yun [7115 0061] had led a large group of cadres to the northeast and expanded and consolidated the CPC base. At the time, Song Ping was also transferred to the northeast, first as deputy secretary of the district committee of Guxiangdun, a district in Harbin City, and political commissar of a garrison brigade, and later also to the Harbin City Federation of Trade Unions, assuming positions as director of the Department of Public Enterprises and chief of the Organization Department. At the time, the CPC did not yet have any historical experience in city administration. Many of the cadres engaged in city work in Changchun, Harbin, and Qiqihar in the northeast subsequently became important mainstay cadres for the economic work sponsored by the CPC.

The entire northeast was liberated in the Liao-Shen campaign of September-November 1948. In 1949, Song Ping was transferred to head of the department of culture and education of the Northeast Federation of Trade Unions and later was promoted to secretary general and vice chairman of the Federation of Trade Unions.

#### **Meets Chen Yun in the Northeast**

During his time in the northeast, Song Ping came in contact with Chen Yun, who was playing an important role in the northeast at the time, and this was not without its influence on him when he was later transferred to leadership work in the economic department.

#### **In the Early Fifties He Joins the State Planning Commission**

The State Planning Commission was established in September 1952. Not long after, Song Ping was transferred to Beijing to become a member of the State Planning Commission and head of the Labor Wages Planning Bureau. In April 1958, after serving several years as deputy head of the Labor Department, he returned to the State Planning Commission to serve as deputy director. Not long before the Cultural Revolution, as part of the program to improve economic construction in the northwest, Song Ping was transferred to serve as director of the Northwest Bureau Planning Commission, deputy director of the Three Line Construction Committee and deputy director of the National Defense Office of the Lanzhou Military District. Within the party, he was a member of the Central Committee of the northwest bureau.

After the beginning of the Cultural Revolution and after the party committee was "smashed," the Planning Commission actually kept out of the way. Affiliated with party power, Song Ping could not avoid some attacks, but, fortunately, he had not been in the northwest very long and thus did not have many shortcomings that could be seized on. In addition, the local area had not



fallen into the circle of right and wrong, thus the situation was much better for them than it was for some higher level cadres.

In the early seventies, after Lin Biao's "political turmoil" [zheji chensha 2124 2060 3089 3097] in September 1971, Zhou Enlai tried hard to correct "leftist" errors, stabilize the political situation, readjust work, and he attempted to revive and develop the economy. In the Central Committee, he liberated a group of old comrades including Chen Yun and Wang Zhen [3769 7201] and assigned them to some leadership work, and sought out capable people in the local areas to take charge of the local situation. Song Ping, who had worked at Zhou Enlai's side for many years in the past, was brought back at this time. In 1972 he was appointed secretary of the Gansu provincial committee and deputy chairman of the Revolutionary Committee, and not long after that was promoted to first secretary of the provincial committee and chairman of the Revolutionary Committee and, in addition, held concurrent leadership posts in the Lanzhou Military District and the Gansu Military District.

In the few years after this, the mainland political situation went through many twists and turns and, of course, the situation in Gansu was unsettled as well. Fortunately, Song Ping was on guard and in no danger, so during the disturbances he continued to preside over the work of the provinces.

After the fall of the gang of four, at the 11th Congress of the Chinese Communist Party in August 1977, Song Ping was elected a member of the Central Committee of the CPC and joined that group.

#### **He Returns to the Planning Commission at the Invitation of Yao Yilin**

Song Ping's return to the State Planning Commission was reportedly connected with Yao Yilin, his old classmate from his younger years.

In 1979, Yao Yilin was appointed vice president of the State Council and in September of the following year (1980) replaced Xu Qiuli, who was appointed chairman of the State Planning Commission. He needed an old hand at economic planning work to assist him, and thought of Song Ping, who had held a leadership position on the Planning Commission for a long time before the Cultural Revolution. Thus, later on, when Liu Zihou [0491 1311 0624], first deputy chairman of the State Planning Commission and former party secretary of Hebei Province left office, Song Ping was transferred back to Beijing from Gansu to become first deputy chairman of the State Planning Commission.

In June 1983, Song Ping replaced Yao Yilin as chairman of the State Planning Commission and at the same time was added as a member of the State Council.

#### **In 1987 He Joins the Politburo**

After four years as chairman of the State Planning Commission, Song Ping suddenly transferred to the

party system, and was put in charge of the Organization Department of the Central Committee. This move struck people as being out of the ordinary. In 1987 after the 13th National Party Congress, when some senior statesmen about the age of 80 stepped down from the Politburo, Song Ping, who was 70, was elected to the Politburo.

Song Ping is prudent, conscientious, unassuming, and on good terms with people in all areas. These are favorable qualities for rising in the political arena.

He has a capable wife named Chen Wuyao [7115 5294 3852], who was also a student at Qinghua University in her youth. When working in the northeast, Chen Wuyao had been an official in the propaganda department of the Communist Youth League. After arriving in Beijing, she switched to party leadership work in the higher schools. She is now retired.

#### **Song Ping's Home in Baiwanzhuang**

Song Ping's residences in the past have been very ordinary. After being elected a member of the Politburo, it was unclear whether he could move into Zhongnanhai. Before this he lived in a two-story, six-room house in Baiwanzhuang, Beijing. Downstairs is the reception room, which also serves as a TV room. I was once invited to his bedroom upstairs and saw a double bed, desk, table piled with books and documents, and hanging on the wall a Chinese painting, not a "famous painter" work, but the work of a Gansu artist. There were no other furnishings or curios, nor were there any so-called high-class goods, such as stereo equipment. It was very simple. The easy chairs in the reception room were fairly out-of-date, and there were some old, cotton quilt-type things spread on them for cushions. At the time, I told him, "This lounge should retire too!" But Chen Wuyao said, "It's still usable, sometimes I like to recline on it."

Three generations live in this house and do not feel it is too cramped. Naturally, they live much better than ordinary people, but in terms of his position, it could be said to be pretty simple. When I entered the reception room, his son and daughter-in-law interrupted watching a television program and took their child outside for a walk.

#### **Song Ping's Two Sons**

Song Ping has two sons: One, an editor for a publisher in Beijing, is a self-taught science fiction writer; the other is a lecturer in a university in Beijing. Their wages are not high, and, as prices have gone up, this has had an impact on Song Ping's life. Song Ping told me, "After rent and food are deducted from their wages, things are still very tight when it comes to entertaining guests from home. Now there is just enough, but there is nothing to save."

#### **How Much Is Song Ping's Monthly Salary?**

According to leaked information, Song Ping's salary is only a little over 300 renminbi per month. Calculated at the official exchange rate, this is only about HK \$600



[Hong Kong dollars] per month, or about 1 percent of that of a high official in the Hong Kong Government, and the monthly salary of a Hong Kong administrative department is over HK \$90,000. In view of rising prices and low wages, it seems that wages throughout China, especially those for intellectuals, teachers, and public servants, should be readjusted in a major way.

#### Exposing Xian Henghan's [0405 1854 3352] Lies

On several occasions I went to the countryside with Song Ping and discovered that he took notes quickly, well, and neatly. Among the high-level Chinese Communist leaders with whom I have come in contact I have seen very few who convene and chair meetings themselves and keep minutes like he does. In addition, he drafts almost all his reports and speeches himself. When he was head of government in Gansu, he never relied on a secretary for drafting except for formal reports of large-scale meetings such as all-province party congresses and People's Congresses.

Song Ping is a modest and prudent man. Each time he goes to the countryside, he listens conscientiously to the reports of the grassroots-level cadres, very rarely interrupting their talks, never puts on condescending airs by giving "directives," and his tone in discussions with people makes it clear it is his own opinion.

However, Song Ping is also a man who dares to uphold principles and dares to tell the truth. In May 1972, the working conference of the CPC Central Committee was just convened at Beidaihe. Xian Henghan, who was at the time first secretary of the Gansu party committee and first political committee member of the Lanzhou Military District, was a man who actively promoted an extreme "leftist" line. At the time, there had been several years of drought in the rural areas of Gansu. Grain harvests had been poor and the life of the peasants was difficult. But Xian Henghan did not tell the truth. He boasted that the Gansu "situation was generally good." Song Ping felt that he could no longer conceal the real situation. He reported to Zhou Enlai personally that the rural areas of Gansu were suffering a drought at the time, many peasants had nothing to eat and nothing to wear. When Zhou Enlai heard this, he said with great distress, "Gansu has such serious problems and in the past the departments of the State Council have not gone there to investigate and do not understand the situation. As president of the State Council I am responsible. However, the cadres who work in Gansu have never reported it and this is very wrong! Abroad, we help the people of countries that are in difficulty, why don't we care about the difficulties of our own people?"

So, Lo Yuchuan [5012 3768 1557], then the head of the forestry department, was asked by the Central Committee of the CPC and the State Council to take some officials of such department committees as hydroelectricity and commerce and go to Gansu to help them out.

At the time, I went with Lo Yuchuan and Song Ping to cover the story. First we went to rural areas of Gansu's Dingxi District, such as Ding Xi, Tongwei, and Jingyuan, and saw peasant households with nothing to eat, saw peasants who were so hungry they were skin and bones, saw herds of cattle and flocks of sheep emaciated because they had no water to drink, saw fields and gardens destroyed by hail, and grass on the yellow earth which had been burned by the sun. The situation was really very serious. If Song Ping had not reported the actual situation in Gansu to the Central Committee at the time, if the Central Committee work group had not promptly come to Gansu and opened the granaries to help the peasants, it is clear that many people would have starved to death in Gansu.

#### "The Cadres Suffer, But the Common People Suffer More"

Gansu is a place that has suffered many misfortunes. In 1958, the well-known extreme-left slogan "the people have such great courage, the land has such great production" came out of Gansu. Lying, bragging, and high requisitioning (requisitioning the peasant's grain) finally caused many people to die of hunger. I have read through the county records of Tongwei County and, according to official statistics, more than 100,000 people, including peasants, died in this county at the time. Later, when the leftist error was corrected, it also hurt a large number of grassroots-level cadres. A large number of commune and brigade cadres who had committed errors of violating the law and discipline in using the lies of the Great Leap Forward in their treatment of the peasant masses were arrested. Actually, the errors of these grassroots-level cadres were forced on them and the responsibility should be laid primarily on the upper-level cadres. But in each movement, the responsible upper-echelon cadres frequently "make themselves scarce," while the grassroots-level local cadres "are blamed by everyone."

At the time when Song Ping heard the Tongwei County leader tell him about this, he said with a heavy heart, "Yes, the line struggle causes many cadres to suffer. But the common people suffer even more! I've been through the records and related materials since 1961 of your county. So many people have starved to death while some escaped to Xinjiang, but the suffering of the common people has been very great!"

When Song Ping goes to the countryside, his agenda is always very full and his work is meticulous and precise. Many of the young working personnel who accompany him cannot take the strain.

At the same time, in his work Song Ping always pays careful attention to direct observation of the living conditions of the common people, listens to what the common people have to say, and is concerned about the hardships of the grassroots-level cadres and the common people. He is responsible for rectifying the party and eliminating corruption. The trust of the people is that they are happy to report problems to him.

### "Criticism Is Your Authority"

After the smashing of the gang of four in the mid-seventies, China was in a period of rectifying wrongs and putting things in order. At the time, the thinking of many cadres could not escape the old patterns and was still used to following the old tracks. Thus, the press was at odds with some local cadres and some people tried everything to keep reporters from criticizing some events and people in the newspapers.

Song Ping regards criticism by the press in a fairly enlightened manner. In 1978 and 1979, the manuscripts of mainland press agencies frequently involved some very high-level leaders. Song Ping's attitude toward this was correct. He said, "For the press to write critical reports is their right. As long as the issues you criticize are accurate and to improve things, criticism should be welcomed. Naturally, it should seek truth from facts, for only through seeking truth from facts can it have a solid grounding. It should also be beneficial: criticism is to help people improve and is not a stick with which to beat people."

### Song Ping Is a Workaholic

When Song Ping is working he may forget to eat and rest. He usually does not go to bed before midnight, but is up very early and often goes out for a walk. At noon he usually rests for about a half an hour. This is his pattern under ordinary circumstances.

### Clearing Up Abuses and Corruption

On the new Politburo Standing Committee, Song Ping is responsible for opposing abuses and corruption and organizing personnel work. At this time, it can be said that he is in charge of this work because he knows what he is doing and because he is deeply respected by others. Song Ping's personal life is very simple: He doesn't smoke or drink and he is not a fussy eater. Once, when Song Ping went to Yongdeng County in Gansu to observe the work, in the morning he heard the report of the county leaders saying that the entire county had suffered such calamities as hailstorms and that tens of thousands of peasants were without food. At noon, when it was time to eat lunch, Song Ping discovered six dishes on the table, but he ate only bean curd and Chinese cabbage and did not put his chopsticks in the other dishes. After he finished eating he said to the leaders of this county: "This morning you said that the life of the masses is difficult, so what was the idea of adding two dishes for me at lunch? I couldn't bear to eat it!" The secretary of the county committee explained, "You came all the way from Wuhan this morning and riding in the car so far and having lunch delayed, the dining hall manager was afraid everyone would be starved and there wouldn't be enough to eat, so he added some fish and pork, both very simple dishes!" Song Ping then said, "Although it's ordinary fish and pork, the common people can't even get rice to eat! The road is open to this county of yours and there are many people coming and going and you see off those who are departing and

welcome those who arrive so you should give some thought to being frugal and not be extravagant!"

Song Ping went to Minle County, a rather poor place in Qilianshan in Gansu to observe. He went to the reception room and saw that a bowl of fruit had been placed on every table in the room. The fruit was called "apple-pear," a new variety that had just been introduced there and was a cross between an apple and a pear. Some people had just taken a bite when Song Ping had the secretary let everyone in the room know that if anyone wanted to eat this fruit he could pay for it himself and not eat at others' expense. Afterwards, Song Ping said to the officials of the county: "When leaders come down to inspect the work, cigarettes and fruit should not be put in the reception room. They should eat what they paid for themselves and should not encourage the defect of eating at others' expense."

### Hope That Song Ping Will Use Talented People Well

Clearing up corruption should be setting an example in yourself and setting up the system really depends on strictly carrying it out. Song Ping believes that "There is no reason why this system cannot work. The key is in being resolute and doing yourself what you say."

How can corruption be eliminated and honesty promoted effectively nationwide? People are watching to see if Song Ping can succeed and demonstrate this. In addition, people are also watching to see if Song Ping can come up with a good method for selecting and using talented people that can be handed over to all the people.

### CASS Sets Standards for Improving Publications

90ON0129A Beijing LILUN XINXIBAO  
[THEORETICAL INFORMATION] in Chinese  
25 Sep 89 p 2

[Text] On 18 August, the Chinese Academy of Social Sciences [CASS] convened a meeting of chief editors in publishing at which academy officials spoke about reexamining and improving publication work in conjunction with studying the spirit of the 4th Plenary Session of the 13th CPC Central Committee.

Academy Vice President Ru Xin [3067 0207] pointed out that bourgeois liberalism had manifested itself ideologically at relatively high levels in various aspects of our culture, economy, literature, philosophy, society, and history. As a result, although in many respects it was not that obvious, it had a definite role in creating ideological confusion. In the past few years, the ideological confusion that existed in theoretical circles was also a prominent manifestation of bourgeois liberalism. There were a multitude of reasons for the recent turmoil and rebellion. However, we should understand that the major reasons were confusion in ideological theory and bourgeois liberalism. In our combined studies we have conscientiously reviewed where our publications actually stand in

the ideological realm, what they have actually been openly propagandizing in the last several years, and what they have been opposing.

Ru Xin declared that in the past several years we have neglected overall control of the ideological realm. The Italian Antonio Gramsci long ago recognized that, if the propertyless classes cannot promptly gain overall control of the ideological realm, they will not be able consolidate political power even though they seize it. I believe there is a definite logic in this point of view. The leading comrades of the Central Committee, in analyzing the overall control of the ideological realm over the past few years, have recognized that certain major public opinion fronts have not been in the hands of Marxists and that this has been a loss for them. On an overall basis, the Marxist front has been gradually shrinking. For a time, bourgeois liberalism passed unimpeded, without the resistance or criticism it should have received. Some public opinion fronts have done various kinds of favors for these so-called "spiritual heroes" [jing ying 4737 5391] and have enthusiastically promoted them. By contrast, the positive Marxist voices got the cold shoulder and were squeezed out. It was hard for them to even publish articles.

Ru Xin declared that, at present, publishing houses, newspaper publishers, and other organizations are carrying out rectification in the spirit of the Central Committee. Several suggestions for rectification presented by publication main offices have already been approved by the Central Committee. These suggestions can be divided into five major categories: 1) Those newspapers and periodicals that have for a long time had an incorrect political orientation and that were a vile influence during the turmoil and rebellion should be resolutely abolished and their publications terminated—for example, XIN GUANCHA [NEW OBSERVER], JINGJIXUE ZHOUBAO [ECONOMICS WEEKLY]. 2) Decadent publications that are vulgar in content and style and that propagate obscene, degenerate ideas should be rectified.

3) Publications whose leading organs are unsound must carry out appropriate rectification and conscientiously strengthen their leadership. 4) Those organizations that used publications to carry out illegal activities must be resolutely rectified or abolished. 5) In view of the excessive number of poor-quality and duplicative publications, an appropriate reduction and rectification must be carried out. Academy of Social Sciences newspapers and periodicals that undergo rectification must be reduced by about 10 percent.

Ru Xin pointed out that at present our most important, most urgent tasks are to criticize bourgeois liberalism and to clear up theoretical disputes by producing articles that uphold the four cardinal principles and criticize bourgeois liberalism.

Ru Xin emphatically pointed out that we must be alert to the penetration of Western bourgeois thinking and to "peaceful evolution" in politics. He said that, since reform and opening up to the outside world, more and more Western bourgeois theories have been introduced into China. We made a big mistake during these last few years by not being selective and by not criticizing these Western theories that we blindly imported. Some things were not genuinely assimilated and strained interpretations were put on them after they were brought to China, such as, for example, the economics concept of inflation. Our indiscriminate imitation of Western theories brought China a number of abominable results.

Vice President Ding Weizhi declared that, in reviewing our work, we found that our attitude toward criticizing bourgeois liberalism has not been decisive enough and we have not sufficiently recognized its perniciousness. The various publications must review and sum up in the spirit of seeking truth from facts, conscientiously absorb the lessons of experience, and do a good job of the work ahead. Right now, we must first of all take a firm stand and thoroughly criticize the ideological trend of bourgeois liberalism.

## NATIONAL AFFAIRS, POLICY

### Proposed Improvements to Large State Enterprises

90OH0011A Beijing JINGJI RIBAO in Chinese  
15 Sep 89 p 3

[Article by the Large State Enterprise Research Task Force, Economics Institute, Chinese Academy of Social Sciences: "Proposals for Enlivening Largest State Enterprises"]

[Text] Large state enterprises are the backbone and mainstay of China's socialist economy. They are the economic base for consolidating and developing the socialist system. Large state enterprises have developed to a certain extent during the past decade of reform, although the majority of them have not really been enlivened due to unstable policies and ineffective measures. Quite a few enterprises have faced extreme trouble or have even turned for the worse due to shortages of energy resources, raw materials and capital.

The crisis which large state enterprises face definitely was not brought on by abuses in the state ownership system itself. The main reasons are found in: (1) Many policy regulations creating a management environment that greatly favors medium- and small-scale enterprises and in particular enterprises under other systems of ownership, and village and rural enterprises, and under uncoordinated reform measures outside of enterprises. This has allowed them to engage in unfair competition with large state enterprises while fostered by government support and inappropriate measures. (2) Local fiscal and industrial contracts have allowed local governments and industrial companies to become formidable profitable entities. Commencing from partial interests, whether consciously or unconsciously, they act as catch basins for state financial income and limiting the authority of enterprise managers, restricting deeper reform and development of large state enterprises. (3) There is improper interference in and an insufficient understanding of the role and position of large state enterprises during the stage of changing tracks. People merely pay attention to the fact that enterprises must fulfill state planned quotas and tax remission tasks. Given that there has not been a fundamental change in government functions and there is an imperfect market and legal system with regard to large state enterprises, not enough attention is paid to the fact that we must still rely on the government to provide necessary guarantees in order to fulfill directed plans. We have also been unable to truly turn over full management authority to enterprises in accordance with the enterprise law. In the past year, although there generally is more vitality than in the past in terms of loosened authority, allowing profit, and contracting of large state enterprises, still, they are not producing, management, reinvestment, and internally coordinated entities. On the contrary, they are unable to exhibit their superiority due to the control of local governments and administrative types of

companies, plus various pressures from the small-, medium-sized companies, and local enterprises, and also the need to fulfill state plans. At present many large state enterprises are slowly reaching a crisis point of contradictions between supply and demand and contradictions within the production structure, hindering deeper economic reform and the healthy development of the state economy.

In order to consolidate the socialist economic base and put socialist economic construction on the right track, we propose using large state enterprises that represent advanced production and advanced production relationships, particularly the largest among them (namely, those enterprises among the 100 large state enterprises published in January 1989 that had sales of approximately 500 million yuan and fixed assets of about 1 billion yuan; energy, raw materials, and other basic industries accounted for 75 percent of the 100 large enterprises, 81 percent of the first 60 enterprises, and 90 percent of the first 30 enterprises), as focal points for future reforms to the economic system and economic management work. We further propose adopting systematic, coordinated and effective measures to give them full support. In the interim stage of changing tracks from a highly concentrated traditional management system to a planned commodity economy, with regard to the very largest state enterprises in energy resources, raw materials, and other basic industries, in order to allow the very largest state enterprises to compete fairly and gradually become truly independent economic entities, we must first adopt measures emphasizing guarantees and management (recover some administrative authority from centrally directed management, and local and industrial companies), and further open up enterprise management authority (including autonomous investment authority, foreign trade autonomy, authority over labor and personnel, internal coordination and planning, and autonomy over outside product sales). Toward this end, we propose adoption of the following measures in regard to the management system, forms of allocation, taxable income, and binding mechanisms.

**1. Reform the old bits-and-pieces management system of the largest state enterprises, and set up a new system of planned management together with autonomous enterprise management, and allow the largest state enterprises to become a centrally directed "state corps."** Regarding the list of the 50 largest state enterprise plans that play a decisive role in the national economy, remove fiscal tasks from local governments and industrial companies. Return them to the leaders of a "Management Committee of the Largest State Enterprises," composed of four-part representatives from relevant government departments, expert scholars, the largest enterprises, and labor unions. The committee shall be empowered by the State Council, and shall have dual functions in representing the state for the largest enterprises: It will be both a special organization assisting the State Council in guiding the largest state enterprises as well as a consulting organization for researching and deciding on

strategies, principles, and policies for the largest state enterprises. Such an arrangement will clarify the responsibilities, authority, and interests of the government and the largest state enterprises during the interim track-switching stage. Industries will still be in charge of the production technology and tasks of enterprises, under coordination with various departments or industries. Ideological and political work will still be led by the party committees of each province, municipality, or autonomous region.

The committee will not directly interfere with enterprises as in the past highly concentrated administrative management style. Instead, it will provide macroeconomic leadership over enterprise management. As for coordination of enterprises and various government departments, and between the local government and industries, it will assist government departments in handling major issues that appear in the largest enterprises. Concerning directed planning, appointments and dismissals of workers, and major investment issues of the largest state enterprises, the committee will join in making policy decisions with departments concerned. It shall be both a directing organization of the largest state enterprises in relations with local governments, industrial companies, and other economic constituents, as well as a general representative of the largest state enterprises.

At the same time, the committee should study and formulate development strategies, plans, and policies for the largest state enterprises; provide consultative opinions regarding the state's long-range projects and industrial policies; assist in rational utilization, management, organization, and supervision of state-owned assets; and assist the largest state enterprises in formulating long-term development projects and management strategies.

**2. Gradually change the current multiple enterprise contract management responsibility system to one of independent management of the largest enterprises under planned guidance, and together with new methods for rational distribution of state profits, move toward preparing conditions for shareholding systems.** Regarding commodity and economy relations brought about by state and enterprise relations under the current enterprise management responsibility system, first steps have been taken in the evolution of separating dual authority, politics and enterprises, and government functions. Concerning state and enterprise profit allocation, doing so has spurred on the initiative of enterprises, making state-owned enterprises generally more lively. However, the great majority of enterprises engaging in shortsighted practice is becoming ever more restrictive in their enterprise management. It is fastly deteriorating due to the characteristics of the ever-changing nature of these enterprises and the inherent deficiencies within the contract responsibility system. Likewise, the current one-on-one type of contract makes it impossible for enterprises to compete fairly. The state is also unable to either regularize management of enterprises or guarantee their continued development and a steady increase in national income. Especially in regard to technologically advanced, very large

enterprises with entirely complicated internal and external relations, the contract system is not a good way to handle relations between the state and enterprises, enterprises and external relations, and enterprises and internal relations. Therefore, while also thoroughly perfecting the management responsibility system for medium and small enterprises, we should gradually dissolve the contract responsibility system for the largest enterprises. In order to create conditions for the future move to a shareholding system, it should be replaced with a new method of autonomous management under guidance and control of state planning in which profits and taxes [?]float[?], and profits are rationally distributed.

### **3. Begin reforming the tax system with the largest state enterprises.**

(1) Practice floating profit retention and taxation, and appropriately lower income taxes on state enterprises (from 55 percent to 35 to 40 percent is rather appropriate). Change many enterprises' current practice of pre-income tax loan repayment to one of post-tax repayment. (2) Divide state and local taxes, and ensure that the fiscal departments of the central and local governments have steady incomes. (3) Perfect the taxable income legal system. Any level of government and individual must not set up or reduce income taxes at will, nor should they share out expenses to the largest state enterprises at will. (4) Have the largest state enterprise management committee and the state taxation bureau jointly check on the tax burden situation of the largest state enterprises, seeing that enterprises both adhere to the law for remitting taxes as well as removing dual taxation and irrational tax levies, thereby reducing enterprises' tax burden.

**4. Formulate rational allocation methods of post-tax profits, in line with the principles of both ensuring state fiscal income as well as enlivening enterprises.** Adjust state and enterprise profit allocation relations. As for post-tax profit allocation, taking the basic principles of allocation as added value and a proportional allotable asset of the enterprise, thoroughly adhere to the principles of to each according to his labor, to each according to his assets, and to each according to his management, in order to motivate management elements, ensure enterprise production rises, and that state income increases. Pay equal attention to the interests of the state, enterprises, workers, and managers.

**5. Gradually establish a self-binding and self-regulating management system for enterprises.** Enterprises should adjust annual worker incomes in line with the indices of industrial average income levels, an enterprise's capital profit ratio, and added value labor production rates. According to these indices, the committee and concerned departments will supervise and prevent consumption fund inflation at an enterprise. should make superior enterprises that have conditions for long-term continual operation. At the same time we must also guarantee the interests of managers.

The benefits of adopting the aforementioned measures are: (1) It will "rescue" the largest state enterprises from their turn for the worse, have a central role in readjusting the industrial mix, and will stabilize and expand state fiscal income. (2) It will clarify various relationships regarding assets within enterprises. Each contribution according to production factors will be allocated post-tax profits, creating conditions for the change to a shareholding system. (3) It will strengthen the vitality of enterprises. Enterprises may look forward to solving the issue of losses. (4) It is beneficial to the state in controlling and readjusting state ownership shares among different enterprises in order to pave the way for realizing public ownership as the main form of varied ownership within a mixed economy.

(Members of the Large State Enterprise Research Task Force, Economics Institute, Chinese Academy of Social Sciences, on the scientific film, "Largest State Enterprises Research," are experts, scholars and people from enterprise units of the Quantitative Economics and Technological Economics Institute, Fiscal and Trade Institute, and World Economics and Political Institute, Chinese Academy of Social Sciences; Comprehensive Office and Worker Taxation Office, State Ministry of Finance; Planning Office, State Planning Commission; Labor and Personnel Management Institute, China People's University; Shanghai Finance and Economics University; An Shan Steel Co; Shanghai Petrochemical Corp; and the Jilin Chemical Company.)

## PROVINCIAL

### Liaoning People's Livelihood 'Improved'

SK2710005789 Shenyang LIAONING RIBAO in Chinese 4 Oct 89 p 1

[Summary] Over the past 10 years, Liaoning Province has succeeded in improving the livelihood of both urban and rural people.

The province's per capita income of peasants in 1978 was 185.2 yuan and that of urban residents 343.3 yuan; its per capita income of peasants in 1980 was 273 yuan and that of urban residents 466.7 yuan; its per capita income of peasants in 1984 was 477.4 yuan and that of urban residents 586 yuan; and its per capita income of peasants was 699.6 yuan and that of urban residents 1,151.8 yuan.

## FINANCE, BANKING

### Centralized Financial Resources Stressed

40060749 Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 11 Sep 89 p 4

[Article by Liu Xiuwen 0491 0208 2429, Chen Juqi 7115 1446 1142, and Jiang Fengzhi 1203 7364 5347: "Issues That Need Addressing To Centralize Financial Resources"]

[Text] In light of the PRC government's successive years of fiscal deficits, many comrades have suggested that China's

financial resources should be centralized more appropriately and that public and central revenue should account for higher percentages of our national income and state revenue. It should be pointed out that although this would play an important role in the steady and healthy growth of our national economy, the following issues still need to be addressed fully and settled conscientiously.

### I. Financial System Abuses Must Be Brought Under Permanent Control

Although our system of centralized revenue and expenditure played a positive role for a time, it has suffered from a chronic malady of being basically unable to handle the distribution relations between the government and enterprises, the state and individuals, and the central and local governments fairly and legally. Not only has this been common knowledge throughout China for many years, and since the 3d Plenary Session of the 11th CPC Central Committee in particular, but it is also the primary issue that should have been settled through financial and economic reform. Although financial distribution relations were improved somewhat in a decade of reform, they are still far from being rational; the problem of localities, enterprises, and citizens all eating from one big pot is still very serious, and the vicious financial cycle of "centralization spells tightening, tightening provokes complaints, complaints produce decontrol, and decontrol creates chaos" still prevails.

What is especially worth noting is that although centralized revenue has been wiped out, centralized expenditure has not. Not only is central finance committed to investing in fixed assets and paying for urban construction (accounting for 30 percent of 1989's budget) and subsidizing enterprise losses and prices (accounting for 30 percent of 1989's budget and equal to all revenue in 1977), but it is also responsible for unforeseen expenses, such as extraordinarily serious natural calamities, and many strict local expenses, all of which cost about 20 billion yuan a year. In addition, central finance also holds the power to adjust wages and sets standards for official travelling and operating expenses.

Moreover, our efficiency in using public funds still has not notably improved. A survey of actual efficiency that was conducted by the departments concerned, found that production in only 61, or 26 percent, of 235 large and medium-sized projects that were completed between 1984 and 1986, met or surpassed its designed capability. Losses reaching 19.6 percent, or 6.4 percent more than the average losses of 13.2 percent that were incurred by industrial enterprises in the same period, were incurred by 46 projects after they were put into operation. Moreover, it was also found that more enterprises were incurring bigger losses every year, with 23 projects losing 24.6 million yuan in 1984, 28 losing 113.2 million yuan in 1985, and 46 losing 167.96 million yuan in 1986. Serious construction waste was also found. Incomplete

statistics show that 1.62 billion yuan, or 4.6 percent of the total investment in 80 projects, was lost due to waste. If the chronic malady and existing state of this system of centralized financial expenditure are not understood adequately, and certain basic and constructive new methods are not found, efficiency will continue to fall sharply in contradiction to goals even though the present ways and means of centralizing financial resources may change.

## II. The Issue of Shrinking Sources of Revenue Must Be Confronted

1) The increasingly serious erosion of the rights and interests to state-owned assets is shrinking the basic sources of revenue of the government of the PRC. An assessment of the increasing prices of the means of production in recent years shows that the difference between the replacement price and the original value of state-owned enterprise fixed assets amounted to 386 billion yuan between 1984 and 1988, which left an average loss to be compensated of over 70 billion yuan a year. Some of this loss to enterprise compensation funds was turned over to public finance as income taxes and profits and used for public consumption, while another part, most of which (80 percent in 1989) was used for staff member, worker, and collective welfare, was kept by enterprises. It is estimated that if the 70 billion yuan a year alone that is eaten up to replace fixed assets were added to the profits that are false because the loss of circulating funds has to be compensated for, it would be found that much more money is actually being lost.

For one thing, of China's state-owned enterprises' management units among the Sino-foreign joint ventures, our investment pricing is unfair. Although the foreign party generally prices its investment according to current value, the Chinese side often prices its shares according to the net book value of its assets and does not assess them carefully. Two, the Chinese side pays rent without calculating stock rights in some of its asset investment operations. Three, the existence of the Chinese side's invisible assets is overlooked. In addition, since the phenomenon of state-owned assets being "legally" eroded in contracts due to low contract bases, pre-tax loan repayment, and guaranteed profits but not losses, can be found everywhere, state-owned assets were sharply eroded during enterprise reform.

2) Although production decides distribution, the fundamental point of centralized finance should be to improve economic efficiency. But in recent years, our macroeconomic input-output rate has been declining. China's comprehensive key production growth rate was only 0.9 percent, accounting for only 10.5 percent of our output growth rate from 1979 to 1986. These figures fell further during the Sixth 5-Year Plan period, 0.6 percent and 8.2 percent respectively, but had been 3.8 percent and 18.9 percent, respectively, during the First 5-Year Plan period. This shows that the economic efficiency of our enterprises has been growing worse year after year. Although our GVIO [Gross Value Industrial Output]

grew at an average 12.8 percent a year from 1980 to 1987, most indicators that reflect the economic efficiency of enterprises, and those that reflect fund-use efficiency in particular, showed a tendency to fall. Our fixed cost of manufactured goods has increased at a rate of 7 percent a year since 1985. From 1985 to 1987, our fund and output value profit tax rates dropped 7 percent and 8 percent respectively, our circulating fund-use per 100 yuan of output value rose 8 percent, and our material consumption per unit product also rose somewhat.

3) While the central government is having financial difficulties, local governments are also in financial trouble. The central government's financial policies toward local governments, such as "fiscal borrowing" and "foreign exchange debt," have not been discontinued in recent years. Since an unwritten international law says that a government is in a financial crisis if 40 percent of its revenue is paid out in subsidies in any year, many of China's local governments are in financial danger. Shandong Province's subsidies accounted for 47.5 percent of its expenditures in 1987, and Tianjin Municipality's subsidies accounted for 44.9 percent of its revenue and 57.7 percent of its expenditures in 1988. Beijing's financial situation is even worse. Its subsidies accounted for 47.7 percent of its revenue and 61.4 percent of its expenditures in 1988, and will account for 59.3 percent of its revenue and 76.4 percent of its expenditures in 1989. More than half of the county governments throughout China have had fiscal deficits for many years. If these issues are not addressed, centralizing financial resources will result in both inequality and inefficiency.

## III. The Relationship Between Centralizing Financial Resources and Effectively Balancing the Budget

Since the PRC government's expenditures have gone mostly for capital construction, subsidies, and administrative expenses, in recent years the seeming uncertainty over whether we can effectively balance our budget by centralizing our financial resources should arouse our full attention.

1) Although 80 percent of our capital construction expenditures now go for key construction, our state-budgeted investment is accounting for a rapidly decreasing percentage of our overall investment in fixed assets (falling from 28 percent in 1981 to 13 percent in 1987). Thus, there will be a considerable shortage of money in the future to reverse the passive situation of our undeveloped key construction, and "it will be hard to guarantee it by relying on public finance alone." Moreover, the efficiency, the size, and the structure of our investment are the reasons for our difficulty in balancing the budget.

2) The trend of rapidly increasing financial subsidies will be hard to reverse all at once. Statistics show that the



central government paid over 500 billion yuan in subsidies in the decade from 1979 to 1989 (including subsidies for enterprise losses and prices). The amount of subsidies has grown very quickly and has been accounting for increasingly higher percentages of our revenue. We paid subsidies of 58.2 billion yuan, 76.3 billion yuan, and 93.1 billion yuan (budgeted figures) in 1986, 1988, and 1989, respectively, which accounted for 25.7 percent, 29.5 percent, and 32.6 percent, respectively of our revenue in those years. The central government's revenue increased 8.637 billion yuan, while our subsidies increased 8.728 billion yuan, from 1986 to 1987. Hebei Province's revenue increased 570 million yuan, or 11.7 percent, while its subsidies increased 760 million yuan, or 49 percent, from 1987 to 1988. It is understood that the situation is roughly the same everywhere, with yearly revenue increases being eaten up by subsidies. The "eat rice money," such as wages, operating expenses, and consumer subsidies, that accounted for 41.37 percent of national expenditures in 1978 had increased to 80 percent by 1987, and will account for a still higher percentage in 1989. In fact, since subsidies are so closely linked to the people's livelihood and directly affect economic stability and social security, their rapidly increasing trend will certainly continue until price increases are effectively curbed, our enterprise management mechanism is basically changed, and our systems for handling things, such as public finance, foreign trade, and commodity grain, are further improved.

3. As long as it is hard to synchronize cutbacks of organizations with cutbacks of personnel and spending continues to rise along with price increases, cutbacks in administrative spending will be a mere formality. It will be hard to curb cost increases if we cannot effectively streamline our administrative structure and change its functions. Thus, we will be unable to effectively balance our budget by centralizing our financial resources as long as we do not pay attention to preserving and developing our sources of revenue, rationalizing our economic relations, and deepening our reforms.

#### **IV. Attention Must Be Paid To Protecting the Achievements of Financial and Economic Reforms**

We are improving our economic environment and rectifying our economic order so as to better deepen our reforms. It is common knowledge throughout China that improving our economic environment, rectifying our economic order, and centralizing our financial resources should not conflict with our existing reform achievements, but should protect and carry them forward. However, different people have different views as to what our existing financial and economic reform achievements are. A brief review of them may enlighten us.

As soon as our financial and economic reforms, which started with the profit motive and took distribution relations as their breakthrough point, were put into effect, they developed in the following three directions:

(1) farm output quotas were fixed for each rural household and the procurement prices of agricultural sideline products were raised; (2) tax reductions and concessions restored enterprise production, management, and investment decisionmaking power; (3) the separation of central and local finances partially restored local economic decisionmaking power. This had the following three tangible financial consequences: (1) the proportion of public revenue in national income dropped 12 percent; (2) a situation developed in which central and local revenue accounted for roughly 50 percent each; (3) conditions developed to where budgeted and extra-budgetary revenue and expenditures also accounted for roughly 50 percent each. It is obvious that our fiscal difficulties grew out of these financial and economic reforms that started with the profit motive. But reviewing the drawbacks of our centralized system of revenue and expenditure and reflecting on the course and outcome of our reforms, it should be said that since profit is the point that links authority to responsibility, it was inevitable that financial authority, which is the primary authority, would be devolved to lower administrative levels first. Reforms to date in all socialist countries began, without exception, by readjusting distribution relations. It should be said that devolving financial authority to lower administrative levels and increasing local, enterprise, and individual financial resources were obviously the major achievements of our financial and economic reforms. Of course, the current issue that has arisen is precisely that it is hard to realize and bring the effects of financial authority into full play without other matching powers, or matching power in other areas.

It is unrealistic to say that the constant decrease in the percentage of national income accounted for by public revenue since 1980 means that China's national strength has declined or that the authority of the PRC government has been weakened. An authoritative government is not necessarily one with centralized financial authority and resources. In fact, this is not the major reason why the authority of our present government has been weakened. Our basic national financial resources and state revenue grew in step with our national income during the decade of reform. Our national income increased 120 percent, our basic national financial resources (including budgeted and extra-budgetary state-owned funds) increased 100 percent, and our state revenue increased 50 percent from 1978 to 1987, if calculated according to constant prices. In fact, it was necessary to let local governments and enterprises have some money and authority to do their own building in order to break free from our system of centralized revenue and expenditure. Things worked better this way than when the central government centralized all the financial authority and resources. It resulted not only in ensuring distinct yearly increases in state revenue (which increased 135 percent from 1979 to 1988), but also in quadrupling extra-budgetary funds in a decade (increasing them from 45.3 billion yuan in 1979 to 227 billion yuan by 1988). This choice succeeded in motivating economic growth and developing a planned commodity



economy. The current issue is the need to conscientiously regulate, control, and guide extra-budgetary funds to bring them more into line with our industrial policy. Thus, if we do not pay attention to protecting the achievements and making the best use of our financial and economic reforms, centralizing our financial resources will certainly conflict with our past reform understanding and choices. This will be a protracted conflict in the course of our financial and economic reforms. In this sense, genuine financial and economic reforms have just begun and urgently need to be deepened.

#### V. Financial Issues Are Mostly Political and Legal Ones

History shows clearly that constitutional government grows out of a rivalry for financial authority. Financial supervision has always been a basic legislative right. A state's tax collection system reflects both its economic and financial functions and also the power of its whole political structure. Tax revenue per se stems from a concentrated expression of the words and deeds of this power, and tax revenue relations can neither emerge or wither away without legal procedures. As with the government's revenue and expenditure plan, the state budget must reflect and conform to the will of the state, i.e., the whole people, and can be realized only through legal procedures. It can be said that financial relations are intrinsically profit distribution and political relations.

Comrade Deng Xiaoping spoke as follows: The budget involves policy, determining budget figures is setting policy, and the budget is a political issue. The management of finances involves important political aims. In fact, the relationship between central and local finances has always relied on a division of authority between the central and local governments; financial subsidies and the distribution relations between the government and state-owned enterprises have always been handled not only as economic issues, but even more so as political ones; and the principles and contents of government expenditures, such as administrative spending, have always been a vital part of government.

We overlooked the relationship between "finance" and "government" and that of finance to politics and law for a time, to the point of emphasizing that economic issues must be settled before financial ones. We ignored the basic fact that financial issues should be settled through politics and law, to the point where the many methods, notices, and decisions in our present centralizing of financial resources often became appeals to certain local governments and institutions. Provisions and policies on government handling of state-owned enterprise distribution relations are often mere formalities, tax law violations of reductions, exemptions, evasion, and refusal to pay can be seen everywhere, and the rights and interests to state-owned assets are being more deeply eroded day by day. It can be said that finances cannot be managed well if they are not managed according to law, and

financial issues cannot be settled without further political reform. The following steps should now be taken: (1) control and supervision of public finance by people's congresses should be improved; (2) law and discipline should be enforced, legal tax collection regulations should be established and perfected, and laws, such as a "Budget Law," a "State-Owned Assets Management Law," and a "Tax Collection Management Law," should be enacted as soon as possible; (3) strict political and legal responsibility should be instituted, and government control over relevant revenue and expenditure activities should be improved.

Thus, centralizing our financial resources can only truly extricate us from our financial predicament and bring about a basic improvement in our financial situation if it is based on further political reform and a stronger legal system.

#### Major Reasons for Capital Shortage

90OH0039A Beijing JINGJI RIBAO in Chinese  
27 Sep 89 p 2

[Article by Li Zhong 2621 1813: "The Major Reason for Enterprises Suffering a Shortage of Capital Funds" in column "Economic Observations of the Week"]

[Text] A major reason why enterprises experience a shortage of capital funds is that too much capital is tied up as "questionable" [irretrievable or immobilized] capital, which cannot be easily turned over, which adversely affects enterprise efficiency, and which also constitutes a huge waste of capital funds.

The Baoding Industrial and Commercial Bank not so long ago instituted an investigation of circulating capital tied up during the first half of the year by 235 Baoding industrial enterprises, which have had fixed credit relations with the bank. It was then discovered that during the first half of the year, "questionable" capital was tied up to the amount of as much as 82.46 million yuan, which was on average 5 percent of the circulating capital of the enterprises, and in some specific enterprises it was actually as much as 50 percent. "Questionable" capital of enterprises took up 12 percent of the bank's loans and 152 percent of the newly granted additional loans of the said bank. A detailed analysis reveals the following conditions:

1. Capital immobilized by irrational reserves and overstocking and stockpiling of goods. The main reasons: First, reduced production in enterprises generated stockpiles of raw materials. For instance, when the North China Terminal Equipment Company at Baoding reduced its production of the PC-9801 microcomputers, the stockpile of original parts had a value of 423,000 yuan. Second, production stoppage or retooling left stockpiles of original products. Third, unsuitable raw material, unfit to be used in production, was stockpiled. For example, one plant in Baoding found 1,333 tons of short-staple cotton unsuitable, and the stockpile of this material tied up 1.39 million yuan of capital. Fourth,

blind and unrestrained purchases. Fifth, incompetent enterprise management, resulting in overstocking.

2. Capital tied up in "questionable" production. This is mainly manifested in the stockpiles of obsolete semifinished products and of left over bits and pieces of industrial material.

3. Capital tied up in finished products. The capital for the irrational product is mainly used to manufacture products which are hard to sell. Some of this capital is tied up in stockpiles of obsolete products, some stockpiles are caused by substandard quality of products, some stockpiling is due to delaying disposal past its right time. We must of course also include here seasonal stockpiling and stockpiling due to overproduction.

4. Capital tied up in advanced loans of which repayment has become dubious. Major problem arise here when the sums involved are very large, when they are tied up for longer periods of time, and when they are spread over a broad area, while repayment of some is delayed or in default. For instance, the Baoding Film Factory advanced loans to the Tianjin Laboratory No 2 Plant, the Beijing Chemical Plant, and other units to the amount of 4.17 million yuan. Advances were granted year after year and tied up funds for a long time. The Baoding Plastics Plant has dubious outstanding loans to the amount of 220,000 yuan, involving 19 units within and outside of the province.

5. Capital funds tied up in other dubious outstanding accounts in four areas: loans to private persons, investments in out-of-province units which are left long outstanding due to unprofitableness of operations, capital provided for out-of-province units, and tying up circulating funds without a possibility of recovering the loans for a long time.

6. Passing the deadlines of settlement creates irrationally delayed outstanding accounts, mainly concentrated at large- and medium-sized enterprises, seriously affecting the capability of large- and medium-sized enterprises to achieve satisfactory returns and hampering normal production and turnover.

There are, furthermore, cases of capital not being used proportionately, for instance, items that should have been amortized are not amortized or circulating capital being diverted which tends to aggravate the shortage of circulating capital in the enterprises and to add to the financial burden of the enterprises.

The large-scale stagnation and waste of enterprise circulating funds are a widely prevailing problem.

Looking at conditions in Baoding and similar localities enables us to infer what the general situation is. When we study the problem of capital shortages and try to solve it, we must, therefore, not only shrug our shoulders, throw up our arms in despair, and expect larger currency issues by the banks. We must, with strong determination, direct our attention to the internal situation at the enterprises,

and do something about irrational reserves and the overstocking and stockpiling of goods. We must also expend energy on the problem of overstocking products due to stagnant sales, inferior quality, and overproduction. We must, moreover, resolve the knotty problem of "triangular debts" and "multiangular debts," and effect a settlement of all outstanding accounts, loans, irrational accumulation of funds, and investments. Particularly at the present juncture of determined "improvement of the economic environment, rectification of the economic order," retrenchment of the currency supply, and shortages in the supply of circulating funds, we must expend even more time and energy on readjusting the production structure and the structure of materials reserves. "Save yourself before you save others," is an old saying, which is also most reasonable. In the long-range view, it is also necessary that the use and flow of capital funds between enterprises and internally within enterprises be gradually normalized and become a benign cycle. If attention is only paid to a loosening of the currency supply, once this will not be forthcoming for a time, it can create the continuous vicious cycle of mutual encroachments and waste, indeed a kind of dangerous "diabetes."

### Production Funds 'Squandered'

90OH0046A Beijing JINRONG SHIBAO in Chinese  
28 Sep 89 p 2

[Article by Wang Jizhou 3769 3444 3166: "Looking Forward to a More Thorough Discussion; A Summary of Readers' Contributions During September 1989 to JINRONG SHIBAO's Special Discussion on 'How Enterprise Production Funds Were Squandered'"]

[Text] Since JINRONG SHIBAO launched a special discussion at the end of August 1989 on "How Enterprise Production Funds Were Squandered," our readers from areas throughout China have eagerly submitted their contributions and aired their individual views on the subject. Their contributions have certainly played a driving role in understanding why the issue arose and in helping to resolve it.

Most of our readers feel that, along with the current tightening of money, the state has certainly not relaxed its support of large- and medium-sized enterprises or of the first and the second-category enterprises in all areas that have achieved good economic efficiency. Readers, such as Xu Donghua [1776 0392 5478] from the Fuzhou, Jiangxi branch of the People's Bank of China (PBOC) and Cheng Fengyin [4453 6646 0603] from the Qinghai Province branch of the PBOC, mentioned this point. For instance, even though money was very tight, the Qinghai branch still granted more than 136 million yuan in circulating fund loans in the first half of 1989, of which over 98 percent went to support production in large- and medium-sized state-owned enterprises. But funds were squandered in various ways, which increasingly reduced

the amount of money that the bank could lend and created, in turn, an overall critical situation for enterprise production funds.

Our readers' contributions were based on actual local conditions in all areas. Their "exposures" of the many ways in which funds were squandered can be summed up in at least the following areas:

1) Poor industrial restructuring made it hard to basically reverse the decentralization of funds. Readers, such as Zhang Fuguo [1728 1381 0948] and Liu Luyuan [0491 6922 0337] from the Xuanhua County, Hebei Province branch of the Industrial and Commercial Bank of China (ICBOC) and Yang Jie [2799 2638] from the Feicheng County, Shandong Province branch of the Agricultural Bank (AB), said that all areas built too many new small- and medium-sized and township enterprises when the economy was overheated in recent years. In addition to competing with large enterprises for things, such as raw materials, energy, and transportation, these new enterprises also siphoned off huge amounts of credit funds.

2) Poor enterprise management caused serious squandering of funds. This was a fairly consistent view among our readers. Comrades, such as Yang Min [2799 3046] from the Bengbu City, Anhui Province branch of the ICBOC, Yue Yang [1471 2799] from the Fuyang County, Anhui Province branch of the AB, Zhang Xiaokang [1728 1420 1660] from the Ankang Prefecture, Shaanxi Province branch of the ICBOC, and Li Bin [2621 3453] from the Xi Xian County, Henan branch of the PBOC, pointed out from an analysis of their particular local enterprise funds, the current alarmingly improper use and extraordinary outlay by enterprises in areas such as necessary expenses not being apportioned, outstanding property damage being charged to accounts, the unusual outlay for special funds, and welfare funds in particular, the misappropriation of capital construction funds, and the serious squandering, embezzling, and waste. They pointed out the necessity of devoting a lot of time and energy to fund management in order to alleviate conflicts arising from the shortage of enterprise funds.

3) Runs on public finances are another important reason why circulating funds are so tight. Yu Xinyi [0151 1800 0001] from the Fuyang County, Anhui Province branch of the ICBOC and Wang Ling [3769 5044] from the Dadukou office of the Chongqing, Sichuan branch of the People's Construction Bank (PCB) pointed out sharply that the bitter consequences of "the separation of central and local finances" is a basic reason for China's shortage of funds. This system of public finance became the "impetus" behind the increase in fund demand, sharpened the irrational conflicts in China's product mix and industrial structure, and further prolonged short-term enterprise activity.

4) The sudden increase in pressure on the funds needed to produce finished products blocked fund circulation

channels. When analyzing this phenomenon, Zhang Xindong [1728 2450 2639] from the Siping City, Jilin Province branch of the PBOC and Jin Tao [6855 3447] from the Anhui Province branch of the ICBOC pointed out that pressure on the funds needed to produce finished products began to increase abnormally in the fourth quarter of 1988. In addition to being a result of the national restructuring of industry, this also was caused by problems in areas such as enterprises hoarding for speculation, market forces not having been perfected, the inability of basic industries, the transport services in particular, to keep up with demand.

5) Another difficult problem that was tied in with pressure on the funds needed to produce finished products, which seriously frustrated enterprises, was that they were behind in their loan payments. Han Jie [7281 2638], vice president of the Daqing City, Heilongjiang Province branch of the ICBOC, was extremely worried about this problem. The famous Daqing Petrochemical Works had fallen increasingly behind in its loan payments—over 300 million yuan at the worst point—since the beginning of 1989. Everyone had a basically consistent understanding of the causes of this type of problem. Yu Fujian [0060 4395 1696] from the Weihai City, Shandong Province branch of the ICBOC also felt that one of the major obstacles to settling it was that the merging of too many financial institutions had left no one willing to take the lead in becoming more flexible.

6) A great number of our readers' contributions discussed the issue of blocked links in settling of bank accounts. For instance, people such as Jia Ming [3946 2494] from the Shandong Province branch of the ICBOC and Lei Zhubin [7191 5511 1755] from the Anhui Province branch of the PCB, pointed out that resolving certain difficulties in the changeover from the old to the new system of settling accounts would be a shortcut to reduce the abnormal pressure on funds.

7) A great many other factors involved in the way funds were squandered, such as the increases in prices, social expenses, and capital construction as well as irrational administrative interference, were found by people, such as Cai Mingwu [5591 2494 2976] from the Yichang City, Hubei Province branch of the PCB, Li Canwei [2621 3503 0251] from the Shaoshan Prefecture, Hunan Province branch of the ICBOC, Jin Yong [6855 0516] from the Nantong City, Jiangsu Province branch of the PBOC, and Wang Yan [3769 3543] from the Baoshan Prefecture, Yunnan Province branch of the ICBOC. Space limitations prevent us from listing them all here.

Most of our many readers discussed their views on relevant countermeasures to resolve these issues. Some of them were quite specific. For instance, methods such as the "guaranteed local management in settling fund accounts" that was proposed by Fan Xuehua [5400 1331 5478] from the Linyi Prefecture, Shandong Province branch of the ICBOC and the "linking of local revenue to large- and medium-sized enterprises" that was conceived

by Li Shishun [2621 0013 7311] from the Weihui City, Henan Province branch of the PBOC, may eventually be accepted as creative ideas.

In summary, our readers' contributions included brief, detailed, superficial, and thorough discussions of many aspects of our investigation into the ways in which funds were squandered. We hope that our readers will continue to set forth their views on these issues in the next phase of the discussion. We have also noticed that some comrades have begun to dig a little deeper into the issues. An example of this is the overall balance of public finance, credit, and goods and materials that was discussed by Yang Dianzhong [2799 3013 1813] from the Shenyang City, Liaoning Province branch of the ICBOC. The achievements of a decade of economic reform are not open to doubt. But as the party Central Committee has decided, deficiencies and mistakes still exist in certain areas. There are still many current financial issues in areas, such as macroeconomic scientific decisionmaking, the fund management system, the overall balance of planning, and the relations between banks and all sectors, that urgently need to be studied and settled. Questions (such as, "Why the overheated economy and the increase in capital construction are still able to be 'bolstered' by banks?" or, "Why it is so hard to maintain the enterprise circulating fund base, and why banks' credit fund risks are increasing rather than decreasing?") are hard to answer from the perspective of a microeconomic and superficial analysis alone. Thus, we must continue to use our reform insights to look for the basic causes of our fund shortages in the various deficiencies of our present system. Then we must come up with a sound strategy to cure these deficiencies by looking into both their root causes and their symptoms, in order to gradually alleviate our fund shortages. We are looking forward to everyone's views on these issues.

Furthermore, most of our previous readers' contributions did not present differing views. In addition to showing that they were all quite familiar with the banking profession and reported on very general issues, this also shows that everyone probably felt a certain amount of other misgivings. For instance, some of our readers told us explicitly that they did not wish to deal with sensitive issues for fear of getting involved in the relations between public finance and local government departments. Actually, all sides should understand that we must remember our point of departure, stick to the facts, and treat everyone with due respect. Furthermore, few enterprises have written to us and expressed their views. We hope that more people in the business world will express their views and that everyone will be able to gather more information from certain enterprises. Finally, we would also like to invite our readers to tell us about the experiences and methods that have been used successfully in all areas to resolve the issue of fund shortages in large- and medium-sized enterprises, so that others in the same line of work can use them as reference.

### Internal Debts 'Overestimated'

90OH0046B Beijing JINRONG SHIBAO in Chinese  
21 Sep 89 p 1

[Article: "China's Internal Debt Pressure Should Not Be Overestimated"]

[Text] While everyone has been discussing China's foreign debts, some people have also begun to speak out about our internal debts. Certain people have been putting things, such as the currency in circulation on the market and people's bank savings deposits, on a par with government bonds and regarding them as China's actual debts. Thus, they have come to the conclusion that we are under more pressure from our internal debts than from our foreign ones, which is very open to question.

As China is now experiencing the phenomena of inflation and price increases, some of the currency in circulation on the market exceeds the demand. Moreover, since people cannot buy the goods they need due to a shortage of market supplies, they are also being "forced" to deposit some of their savings in banks. While it may be reasonable and of practical significance to regard these two parts of our currency, i.e., the currency in circulation on the market that exceeds the demand and the part of people's savings deposits that does not have a material base, as national debts that should be exchangeable for goods and materials, it is out of line with actual conditions to regard all of the currency in circulation on the market and all bank savings deposits as actual national debts.

While issuing currency is an action taken by the central bank on behalf of the state to provide society with means of circulation and payment and to raise funds, depositing savings in banks is an action taken by people to temporarily transfer the possession of their idle capital to the state to earn interest. Although both of these sums of currency eventually have to be withdrawn or repaid, i.e., all of the currency issued on the market has to be eventually withdrawn from circulation and all savings deposits have to be repaid when they mature, the goods necessary to withdraw from the market and the money needed to repay them are basically ensured as long as the state's political power exists and the economy is still operating. When society is always advancing, the economy is invariably growing, and people's incomes are constantly rising, the money supply needed by the market and people's savings deposits will naturally also gradually increase. For instance, except for decreasing slightly in 1960, 1961, 1962, and 1969, China's urban and rural savings deposits have increased almost every year in the 40 years since the founding of the PRC. By the end of 1988, they had reached 380 billion yuan, or 860 million yuan more than in 1952, for a 441-fold increase. It can be said that under normal conditions, the state can in fact make long-term use of both the money supply needed by the market and, based on upholding the principle of voluntary participation, also the increased savings deposits. Although it is necessary to

keep a fixed minimum of goods and materials in reserve to better stabilize these two sums of currency, treating them completely the same as actual bonds or "surplus buying power" and regarding them as a factor in economic instability, obviously creates its own tense atmosphere. Since China is a socialist country with a stable government and a growing economy, the situation could not occur in which it would have to withdraw all the currency in circulation from the market or repay all of their savings to its depositors.

Although the bonds issued by China's government are real debts that must be repaid when they mature, they are not only small in amount, being only 63.6 billion yuan by the end of 1988, but are also different from our foreign debts in the following ways: 1) When these bonds mature and have to be repaid to the state, since some of them will be changed into savings deposits in state banks and used to make up the decrease in state funds as a result of redemption, they will not be able to be changed completely into buying power and be used to meet the market demand; 2) The state can repay bonds with bonds, i.e., issue new bonds to raise the money to redeem the old ones. Many countries throughout the world repurchase capital with interest on their domestic bonds in this way, even to the point of using the funds raised by issuing bonds as long-range state funds.

Issuing currency based on market demand, striving to increase people's savings deposits, and selling appropriate amounts of bonds on the domestic market not only put no debt pressure on the state, but also are common fundraising techniques that are used by all countries in modern times. This applies even more so to people's savings deposits, since more economic growth, higher incomes, and more developed relations between currency and credit make them increase faster. People's savings deposits have soared in recent years in China because our planned commodity economy and our people's individual incomes have grown so quickly.

Correct decisionmaking comes only from sound judgments. While underestimating China's current debts by regarding them mainly as foreign debts and neglecting to make the necessary plans for them could certainly land us in a passive position. On the other hand, overestimating them certainly will not cause a repayment problem as debts that must be repaid but might just keep us from making full use of our construction funds and jeopardize our successful accomplishment of economic construction and reform.

## INDUSTRY

### Automobile Industry 'Overheating'

90OH0038A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 19 Sep 89 p 4

[Article by Ma Ziwen 7456 5261 2429: "Overheating in Automobile Industry Violates Economic Laws"]

[Text] China's automobile industry has experienced three rounds of overheating in the course of development. Each time auto plants proliferated as scores of plants, sometimes as many as 100, were built all over the country, duplicating one another. According to statistics, there were as many as 757 domestic auto and refitting plants nationwide. With the exception of Tibet and Ningxia, many provinces and municipalities have their own automobile companies. And then there are some unregistered factories that are still operating under various names and in all kinds of methods. It is certain that China leads the world in the number of automobile companies. Since 1987, the development strategy of the automobile industry has gradually shifted to the production of sedans. Once the signal was out, another bout of overheating swept across the land as local, military, and even metallurgical enterprises jumped on the bandwagon of producing small sedans.

### Overheating in Automobile Industry Violates Objective Economic Laws

As we all know, the car industry is a capital- and technology-intensive industry. Its characteristics as an industry determine that automobile production be intensive. Its development principles have long been verified by success stories in car production at home and abroad. One must start with a lot of capital. Otherwise there is no way to create an efficient automobile industry producing low-cost and high-performance cars in high volume.

In a developing nation, an automobile company with an annual production capacity of 5,000 units must still price its cars at 1.4 times that of a mass production plant even when no foreign parts at all are used. Only when a company produces 200,000 units can it be price-competitive on the world market. And when its output reaches 300,000 units, it matches the production level in Europe. In many leading car-producing countries, the "three-company concentration index" is used to gauge the level of development of its automobile industry. The "three-company concentration index" measures the combined output of a country's three largest automobile makers as a percentage of total national output. At present, the three-company concentration index in a developed nation is usually above 90 percent. The higher the index, the better the prospects for speedy development. All this is determined by objective economic laws.

Such principles are also borne out by successes and failures in China's automobile industry over the last 3 decades. At the national level, the state concentrated its funds on building large-scale enterprises like the Changchun No 1 Motor Vehicle Works and the Hubei No 2 Motor Vehicle Works, quickly upgrading the standard of China's automobile industry and narrowing the supply-demand gap. Over the years, the combined output of the No 1 and 2 Automobile Companies has consistently accounted for over 40 percent of total national output. In contrast, most of the host of small and middle-sized automobile companies on the local level, which were built as a result of a herd instinct, are remodelled repair

shops which seek to be a full-fledged automobile plant despite their small size. By and large, they started out with limited investment and are small-volume, high-cost producers with uncertain self-transformation and self-improvement capacity. As a result, we are neither here nor there, despite paying a heavy price. According to 1987 statistics, "there are over 100 automobile companies nationwide, more than the total number of car companies in such major world car-producing nations as the United States, Japan, and Western Europe. Yet only one or two companies have an annual production capacity exceeding 80,000 units and only six have an annual production capacity exceeding 10,000. In contrast, as many as 90 have an annual production capacity in the hundreds and thousands." If this situation persists, the automobile industry will continue to stagnate and fall further and further behind its counterparts in developed nations. This is something our nation must be on guard against and think about.

#### Reasons for Overheating in Automobile Industry

"High initial investment, specialization, mass production, integration." This sums up China's experience in developing its automobile industry. It is also its development policy for the future. In actual day-to-day work, however, the implementation of this policy is fraught with difficulties. Despite repeated injunctions from the top, people below continue to do their own thing. The following explains why:

First, demand traditionally has always exceeded supply, which is the underlying incentive for many provinces and municipalities to invest in local automobile manufacturing with zest. After the reform and open policies were under way, in particular, the nation's economic situation improved and the demand for cars rose, which in turn widened the supply-demand gap even further.

Second, the failure of the state to create a stable external environment for the automobile industry and formulate a strong effective policy to foster the industry has created opportunity after opportunity for people who behave in a myopic way and are concerned only with immediate interests:

1) For years we had no stable long-term unified planning, relying merely on traditional decision-making. We wanted to develop the automobile industry in a big way in a hurry; thus, we fell back on subjective conjecturing. We set up roadblocks against ourselves and changed our policies repeatedly. The result was an anomaly—enterprises of varying sizes with inconsistent performance, unable to improve themselves either quantitatively or qualitatively.

In recent years, the government declared in the Seventh 5-Year Plan its intent "to build up the automobile industry into a backbone industry of the national economy," but failed to come up with corresponding industrial policies or strong measures to nurture it. Resistance to major projects has been considerable.

2) State investments in the automobile industry have been grossly inadequate. Statistics show that such investments over the past 3 decades constituted a mere 0.9 percent of all state investments in industry. In contrast, the corresponding figures for both developed and newly industrialized countries usually range from 6 to 10 percent. Over 1 million cars have been imported at a cost of 30 billion yuan since the PRC was founded. For institutional reasons the state would rather import from Japan or the West instead of spending the money to build up a domestic car industry.

3) There is no coordination with related industries. Nor do they develop at the same pace. Since the PRC was founded, the nation's primary industry has made considerable progress and a large number of automobile parts plants has come into existence. But again for reasons that have to do with macroeconomic management, there are problems that should be cause for concern. Take, for instance, the drive to increase the proportion of Chinese-made components at the three Sino-foreign joint ventures in the automobile industry. Because of the wide disparity between the level of technology of foreign car models and that of China's automobile industry, the domestication rates at the three companies in the 3 to 4 years since they were set up are as follows: Shanghai Volkswagen Corporation, 12.6 percent; Guangzhou Peugeot 505 Corporation, 7 percent; and Beijing Cherokee Corporation, 30 percent. For over 30 years, the parts and components industry, like the main engine industry, has suffered from severe overlapping and fragmentation. Over 200 parts enterprises are widely scattered among the machinery and transportation industries, urban construction, and the military industry. Because of the lack of unified product planning and specialization, the initial investment has been limited and production capacity is small. For instance, there are more than a dozen factories producing high-quality glass for the car industry alone, each of them doing its own importing, research and development, and production. This is highly wasteful. Thus, macroguidance and coordination is badly needed. Otherwise the parts industry cannot advance in tandem with the automobile industry.

4) There has not been sufficient support for existing key enterprise. Most enterprises under central supervision and inspection complain about too many restrictions. Some of them, strapped for funds, have suspended production. Some are stuck with unsold cars because of the tight money policy (squeeze on credit). Some are operating just to break even.

Third, every instance of overheating occurred after the state launched structural reform by delegating power to enterprises and expanding local decision-making authority. For example, it authorized the provinces and municipalities to examine and approve projects on their own and to make decisions regarding investment. The central government has entered into financial contracting with the localities and introduced revenue separation. In the process the local governments became

more of a decision-making body with their own interests. There has been a traditional shortage of automobiles in China. This fact, coupled with the immaturity of the market economy, has resulted in grossly distorted automobile prices. Right now a small car costs 2 to 3 times more than a bus and 3 to 4 times more than a truck. The profits of car manufacturing, especially the high profits of making small cars, are particularly appealing to the localities, which have been scrambling to invest in the local car industry as a way to increase local revenues. Under these circumstances, little thought is given to the macroeconomic performance of the state.

### **Eliminating Overheating in the Automobile Industry and Ensuring its Healthy Development**

Overheating is a negative phenomenon. It violates both the development principles of the automobile industry and objective economic laws and will lead to endless trouble. Henceforth, we must step up macroguidance in earnest and adopt restraining measures. In particular, we must not allow another round of overheating in the course of developing car production. Toward that end, we must take these measures:

1) The state should adopt and enforce the "Automobile Industry Vitalization Law" and work out a series of automobile product models. The "Automobile Industry Vitalization Law" is a pragmatic document to guide the development of the automobile industry. Through legislation, it lays down the development objectives and development focus of the car industry and the major measures to be taken. It enhances policy stability and continuity and avoids haphazardness, subjectivity, and randomness. Not only does it regulate and guide the automobile industry, but it will also be binding on related industries and sectors.

Product model series form the basis for the development of automobile products. Such series should be drawn up based on the development and needs of the national economy and in light of the present state of automobile products. New models should be introduced continuously to transform the mix of automobile products and put an end to the chaos in automobile development, thereby satisfying the multifaceted needs of national economic development.

2) Broaden the functions of the industry's macroregulation and control bodies. First, the industry's macromanagement body discharges its functions on behalf of the state. It has the power to supervise, protect, and restrain all production enterprises in the nation in accordance with the provisions of the "Automobile Industry Vitalization Law." Second, it is empowered to formulate a national automobile industry development plan in light of market forecasts, laying down the scale of the industry and the sound distribution of plants, and carrying out strict verification. The "three large, three small" sedan projects, now already established, should be protected and enforced conscientiously. Projects not in line with

the industrial policy should be penalized administratively and economically. Finally, reasonable evaluation standards for industrial organization structure and scale should be formulated to screen and select small and medium-sized enterprises already in existence.

3) Nurture the industry selectively. A favorable external environment should be created for key enterprises. They should be subject to fewer restrictions and given more room to maneuver. Corporations should be given assistance to develop and grow so that they can increase product varieties, improve product quality, and increase market share. The most urgent task now is to take practical measures to foster the speedy development of the Changchun No 1 Motor Vehicle Works, the Hubei No 2 Motor Vehicle Works, and the Shanghai Automobile Factory and accelerate the drive to increase the share of Chinese-made components in cars in order that they turn out a large number of good quality cars soon to bridge the supply-demand gap at home, stem the tide of imports, and fundamentally stop other projects from going ahead.

The state should vigorously encourage and support horizontal integration among corporations and increase the concentration of automobile manufacturing. Right now there are numerous automobile plants, refitting plants, and parts and components factories. Corporations should be allowed to contract with, lease to, and acquire local enterprises. The transfer of property rights for compensation should be allowed. Corporations should be required to pay a certain amount of taxes to the local government. Enterprises and local governments should be encouraged to pool funds together, offer stock for local sale, enter into joint ventures, and share profits. That way we can both absorb local funds into the industry, making possible unified planning and avoiding investment fragmentation, and protect local economic interests so that localities too are motivated to join the central government to support the centralization of corporations and make them more internationally competitive.

The fragmentation, chaos, and poor quality resulting from overheating are sharply at variance with the high degree of intensity of automobile manufacturing. To survive and develop amid competition, enterprises must turn themselves into production organizations that achieve sufficiently large economies of scale and are adept at operations and management. They must have a specialized production organization, from assembling to the production of parts and components, advanced management, and an after-sale service system. In addition, they must boast a modern research and development capacity. These are things small and medium-sized enterprises are not equipped with. Thus the inevitable trend in the development of modern automobile manufacturing is the formation of corporations through the gradual concentration of production. Only if we realize this point and really pursue it can our automobile industry hope to catch up with that of developed nations.



## Regulation, Control of Machine, Electronics Industry

90OH0038B Beijing JINGJI RIBAO in Chinese  
22 Sep 89 p 2

[Article by He Guangyuan 0149 0342 6678: "More Regulation and Control of Machine-Building, Electronics Industry Urged"]

[Text] China's machine-building and electronics industry has made rapid progress in the 40 years since the PRC was founded, particularly following the 3d Plenary Session of the 11th CPC Central Committee. At present machine-building and electronics enterprises account for about one-quarter of all industrial enterprises in China. They also contribute one-quarter of total national employment, gross value of industrial output, and after-tax profits. The machine-building and electronics industry is the largest industrial sector in China. Be that as it may, the mechanisms for macroregulation and control are less than perfect. The wide dispersal of electronics and machine-building plants, mismanagement, and low standards, problems which have plagued the industry for a long time, have not been fundamentally resolved.

To begin with, we have lost control over investment outside the plan. Between 1986 and 1988, investments in the technological transformation of the industries amounted to 23.25 billion yuan, of which only 7.85 billion yuan, or one-third, were budgeted in the plan. On the one hand, there are insufficient funds to finance projects in the plan. On the other hand, there has been an explosion in the number of projects outside the plan and in investment in those projects. Of projects outside the plan, a large number are the extensions of what are already low-standard projects and overlap existing projects.

Second, there has been no effective control over the proliferation of plants producing "hot" or popular products. As one fad after another—automobile fever, motorcycle fever, color television fever, refrigerator fever, cable fever—occurs endlessly, overlapping in production, plant construction, and unwarranted imports has become a serious problem. In 1960, there were 60 elevator plants. Today there are over 300, of which more than 200 have an annual output of less than ten. Nationwide there are 113 color TV production lines (57 permanent enterprises,) but the annual production capacity of the overwhelming majority of the production lines is less than 100,000 units each.

Third, there has been no effective control over the importation of machine-building and electronic products. Between 1985 and 1987, China imported an average of over 18 billion yuan worth of machinery and electronic products each year. Owing to the delegation of the examination-and-approval power, there are now 100 examining units for the import of machinery and electronic products. During the past 3 years, of all machinery and electronic imports, only 10 percent were initially

screened by the electronic manufacturing units which would use them eventually. Of all imported engines, 75 percent were ordinary engines that could be manufactured domestically. The massive importation of integrated circuits and videotape recorders has also been a blow to domestic industry.

Fourth, we have lost control over the speed of production development. The industry grew faster than the average national industrial growth rate in 1987 and went on to shoot up another 25.2 in 1988. (Specifically the machine-building industry expanded 20 percent; electronics industry, 39 percent.) Excessive growth of this magnitude has caused serious problems for the normal production of some enterprises and helped encourage the tendency of some enterprises to seek fast growth and price competitiveness exclusively, thus impeding the drive to upgrade technology and improve quality and management. To turn this situation around rapidly, macroregulation and control must be intensified.

Based on the national economic development strategy and in light of the realities in the machine-building and electronics industry, the general principle for intensifying macroregulation and control in the industry should be as follows: "There should be one policy for the whole industry. Planning for the industry should be comprehensive. The sources of funding should be diversified. Examination-and-approval standards should be drawn up for screening at different levels." The formulation of a sound industrial policy and the determination of sources of support and restraint in different sectors of the national economy are an important blueprint for the adjustment of the industrial structure and macrocontrol and regulation. China is vast in territory and boasts a full lineup of industries. If each locality and each industry draws up its own industrial policy to suit its own needs and interests, the inevitable result will be chaos and sectorial short-term interests will damage long-term national interests. Therefore, it is the responsibility of the machine-building and electronics industry to come up with implementation details based on the industrial policy promulgated by the State Council and the industry's own characteristics. The national industrial policy outlines products that the state proposes to support, suspend, or severely curb in terms of production, capital construction, technological transformation, and foreign trade. It is also the responsibility of the industry to fill in the details of such product series in full, which, upon approval by the State Council, would become part of the national industrial policy. This is the meaning of "one industrial policy."

"Planning for the industry should be comprehensive." This does not mean that all capital construction or technological transformation projects in the industry and all products should be incorporated into one single plan. Rather it means that the industry should unify guiding principles for planning, its direction of development, and objectives of development based on the national industrial policy and produce a single distribution plan for restricted projects and popular products.



Horizontally, the basic planning framework is made up of the various sectors of the nation's machine-building and electronics industry. Vertically, it consists of five levels: ministry, province, municipality, prefecture, and county. By integrating the planning of the various sectors and levels, we can organically bring together the equipment policies of the user sectors and the production policy and technical policy of the manufacturing sectors. The purpose is to make sure that the industry-wide plan dovetail with the plans of its various branches and localities and that they supplement one another and form an organic integrated entity. This will put an end to the fragmentation, chaos, and poor standard duplication and extension of the past resulting from multiple planning and sectorial division as each sector did its own thing.

Funds are needed for the implementation of the industrial plan. At present China's investment system is sector- and locality-oriented. In the machine-building and electronics industry, many projects are funded by the sectors and localities that will use the final products. For this reason, a major effort must be made to secure the support of the various sectors and localities and attract investment funds through multiple channels. This is the objective requirement for the "diversification of the sources of funds." Right now enterprises are the primary investors; even state appropriations are channelled through enterprises. Enterprises must consider tapping various funding sources, which currently include the following: first, state appropriations, which account for a shrinking share of investment funds; second, government loans; third, bank loans; fourth, funds raised by enterprises; fifth, funds raised through horizontal integration; and sixth, loans from the World Bank and foreign governments and funds from joint-venture partners. To turn a project incorporated into the plan into reality, the enterprise must raise funds through every available channel. The machine-building and electronics industry operates on a large scale and are multifaceted. One agency alone cannot examine and approve all projects. Nevertheless, we cannot intensify macroregulation and control and overcome the current fragmentation and confusion without centralizing the power to examine and approve projects. To reconcile the two, "project examination and approval must take place at different levels." The project examination and approval jurisdiction of each level must be clearly delineated and the initiative of each party must be fully exploited so that both relative concentration and appropriate power sharing are achieved. In the case of restricted and popular projects, some should be initially screened by the Ministry of Machine-Building and Electronics Industry, which will then submit its opinions to the state for its review and decision, and some should be examined and approved or rejected by the ministry itself. In the case of non-priority projects, some should be initially screened by the local agencies in charge of the industries, which

would then submit their opinions to the local government for its review and decision, and some should be examined and approved or rejected by the local agencies in charge.

As for the examination and approval of imports, uniform examination criteria should be drawn up to be applied by the various levels within their jurisdictions.

### Steel Complex Construction Under Way

*OW1110022689 Beijing XINHUA in English  
0144 GMT 11 Oct 89*

[Text] Shanghai, October 11 (XINHUA)—More than 60 percent of the second-stage construction of the Baoshan iron and steel complex has been completed after four years of effort.

Three of the six major construction projects are finished. They are the workshops for cold rolling, hot rolling and continuous casting. The No. 2 blast furnace, the sintering plant and the coke oven have also taken shape.

The cold-rolling workshop was built in September, 1988. From trial production has come more than 200,000 tons of cold-rolled steel. Its designed annual capacity is 2.1 million tons.

The hot-rolling workshop is equipped with advanced equipment and technology and has a designed annual capacity of four million tons. Work on installation and testing of the equipment has been completed and the workshop is expected to start trial production this month.

With about 80 percent of its stack installed, the No 2 blast furnace is now already more than 40 meters high.

Construction of the second-stage of the Baoshan iron and steel complex started in 1985. About two thirds of the equipment needed for the undertaking is designed and made in China. The whole project is expected to be completed in 1991 when the No 2 furnace will be commissioned.

When the second stage is completed, the company's daily output of iron and steel will grow to 600 tons from the present 300 tons. Its main products will change to finished steel plates, tubes and rolled steel from today's iron and steel blanks.

The company will be also be able to pay the state 1.5 billion yuan (\$400 million) in profits and taxes each year as against only a little profit at present.

### Provincial Industrial Conference Held

*SK1810013189 Harbin Heilongjiang Provincial Service  
in Mandarin 2200 GMT 16 Oct 89*

[Text] On the afternoon of 16 October, the provincial government held a meeting to report on the situation of industrial production. Provincial Governor Shao Qihui

put forward seven points on halting the decline in industrial production and stabilizing the economy of the whole province.

Prior to Shao Qihui's speech, Vice Provincial Governor An Zhendong reported on the province's current industrial production situation and the existing problems. An Zhendong said: At present, the province is comprehensively short of funds for industrial production, market sales are in a slump, and a fairly great number of finished products are stockpiled. From January to August, the increase in industrial production was not big. There was no industrial increase in September.

In his speech, Provincial Governor Shao Qihui analyzed the reasons for the decline in the province's industrial production rate. He said: The situation in which an excessive decline in the industrial production rate was seen, in addition to some economic reasons, was related to a certain extent by the poor state of mind of the cadres and the masses. Quite a number of economic workers, particularly the cadres of enterprises, industrial and marketing personnel, and the masses of workers and staff members, had doubts and misgivings about whether the policies would be fulfilled. They adopted a wait-and-see attitude and lacked confidence and courage to overcome difficulties and solve contradictions. In addition, there were also some people who failed to clearly distinguish between the right and wrong of the past policies. These thus affected the normal progress of the production and operational activities. In view of these problems, Provincial Governor Shao Qihui reaffirmed and made clear the following few points:

1. We should extensively publicize and explain clearly to the masses that all the reform and opening up measures issued before the 4th Plenary Session of the 13th Party Central Committee which were discussed and decided by the party Central Committee and the State Council, all rules and regulations formulated by the State Council and all laws formulated by the Standing Committee of the National People's Congress [NPC] should be continuously implemented.

2. The administrative rules and regulations which were discussed and decided by the provincial party committee and the provincial government or which were determined by the provincial government before the 4th Plenary Session of the 13th Party Central Committee, all local laws and regulations formulated by the Standing Committee of the provincial People's Congress, and all promulgated policies and measures, with an exception for those which were revised or abolished by formal decree, should be continuously implemented. Over the past few years, the policies which were issued in the course of reform and opening up and which were proved through practice that they were in conformity with the development of productive forces should not be changed at will.

3. The enterprise law has clearly stipulated that enterprises should implement the plant director and manager

responsibility system. We should resolutely implement it. Enterprises should consider plant directors and managers as the core and should do a good job in organizing production and operational activities. The party and government organs, the trade unions, and the Communist Youth League [CYL] organizations should center their work around enterprise production and operation and should support the work of plant directors. Displaying the political core role of the party organizations does not mean to replace plant directors' power in policymaking and command in production and operation. As the representatives of the legal persons of enterprises, plant directors should assume responsibility for enterprises' production and operation and the building of the spiritual civilization.

4. We should uphold and perfect the enterprise contract responsibility system in operation. Practice has proven that during the present stage, the enterprise contract responsibility system in operation is a fairly good method. We should not vacillate or change this at will. Enterprise contracts that have not yet expired should be continuously implemented. Contracts which have expired may be extended on the premise of summing up experiences, overcoming shortcomings, and gradually perfecting the contracts.

5. Under the circumstances of intense competitions, in order to survive and to strive for development, and with the approval of the higher levels and after the discussion and adoption by the workers congresses, and under the premise of not violating the state law and policies, enterprises may implement some policies and measures for invigorating operation, such as contracting the purchase of fuel and raw materials to individuals and rewarding the purchasers, taking a percentage of the money from the sales of products for the purchasers, and taking responsibility for the expenses of the supply and marketing personnel. However, we must rationally determine the fixed quotas and ratio and make public the accounts in order to increase the visibility. This practice is conducive to preventing unfair distribution and the phenomena of law and discipline violations. In the future, no individuals in enterprises will be allowed to ask for sales commissions or protection fees in management and operational activities under any pretext.

6. Enterprises should be allowed to use funds and necessary expenses during their operational activities and economic contacts. However, the funds must be spent in accordance with the related stipulations and attention must be paid to frugality. Extravagance and waste, the use of public office for private gains and bribery must be strictly forbidden.

7. We should promote honesty and eliminate corruption. We should pay attention to strictly distinguishing between the mistakes caused by imperfect policies and the practice of taking the opportunity of reform to engage in unhealthy tendencies; and between some economic activities and economic contacts which enterprises had carried out in the past in accordance with the

policy stipulations of that time and illegal operations and bribery. The problems which emerged in the process of reform which were caused by imperfect rules, regulations, and measures or caused by a lack of experience, and some mistakes which emerged in the course of exploration and experiments are all problems cropping up in the course of advance. We should correct and eliminate them by summing up experiences and deepening reform. The undisciplined and law-breaking acts of seeking the opportunity of reform to willfully violate policy stipulations or taking advantage of one's position and power and using convenience provided by the job to use public office for private gain or abuse one's powers to seek personal gain or illegal gain for the individuals or for certain groups must be resolutely corrected, and conscientiously investigated and dealt with.

In his speech, Provincial Governor Shao Qihui particularly stressed: Stabilizing policies and the economy is the key to realizing the whole province's social stability and unity and a sustained economic development. This is not only an economic issue but also a major political issue. In face of this grim situation, the party committees and governments at all levels and all departments and units should conscientiously study and adopt economic and policy measures to prevent economic decline, and support all economic departments and enterprise managers to have a free hand in boldly carrying out economic work. The organizational, discipline inspection, supervision and economic supervisory, and law-enforcement departments should firmly foster the guiding ideology of taking economic construction as the focus of their work and rendering service in an effort to stabilize the economy. Under the unified leadership of the party committees and governments at all levels, we should do a good job in the ideological and political work of the current economic front, and contribute to stabilizing the economy.

## FOREIGN TRADE, INVESTMENT

### Sino-West European Economic Relations

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[Article by Zhang Yunling 1728 5686 1545 of the West European Institute of the Chinese Academy of Social Sciences: "Sino-West European Economic Relations"]

#### [Text] Brief Review

Since the founding of the People's Republic of China, many West European countries participated in varying degrees during a certain period in the embargo started by the United States. This once created great obstacles for Sino-West European economic relations. In the early 1950's, Sweden, Denmark, Norway, and Finland of North Europe took the lead in establishing diplomatic relations with China. Then the United Kingdom and Holland followed in recognizing new China and set up agencies for each other. This opened a window for the

development of trade relations between China and West Europe. In the late 1950's, Sweden and Finland already signed trade agreements with China.

In the 1960's, Sino-West European economic relations made a turn for the better. In 1964, China and France officially established diplomatic relations, thus further opening the door to the development of Sino-West European economic relations. The deterioration of Sino-Soviet relations caused China to shift the focus of trade development, especially advanced equipment import, to West European countries. During the 1960-70 period, the growth rate of Sino-West European trade was 2 times faster than that of China's entire foreign trade, and the proportion of Sino-West European trade in China's entire foreign trade increased from 15.6 percent to 25.9 percent.

In 1970 Sino-US relations made a breakthrough, thus further easing the tension in the diplomatic relations between China and some West European countries. The Federal Republic of Germany, Italy, Belgium, and Austria officially established one after another diplomatic relations with China. The United Kingdom, Holland, and China officially upgraded their diplomatic relations to ambassadorial level. Therefore, by the early 1970's, obstacles in the diplomatic relations between China and the overwhelming majority of West European countries were already removed. This situation undoubtedly laid a foundation for further broadening Sino-West European economic exchanges and cooperation. In May 1975, China established official relations with the EEC. Shortly after that, they signed a trade agreement.

But during the 1970's, the development of Sino-West European trade relations was not fast. It was slower than the growth rate of both West Europe's and China's foreign trade in this period. A major cause of this trend was the rapid development of Sino-US and Sino-Japanese relations. Judged by the analysis of trade ratios, the increase of the Sino-US and Sino-Japanese trade ratios was basically achieved at the cost of a reduction in Sino-West European trade ratios. This trend continued until 1984 when the Chinese government emphasized the need to strengthen economic relations with West European countries. After that, Sino-West European trade ratios began to pick up. By 1986, the ratio of Chinese import from West European countries increased to 22.5 percent (from 9.6 percent in 1984), and that of Chinese export to West European countries increased to 14.5 percent.

Of course, we should notice that since the late 1970's, the sphere of economic relations between China and West Europe has been broadened due to China's implementation of open policy. Their economic relations are no longer concentrated on bilateral trade. They have made unprecedented progress in regard to investment, credit, and other forms of cooperation. Especially in the area of technology import, West European countries have become the main source of advanced technology import. In this sense, Sino-West European economic relations have entered the phase of all-round development.

Comparison of the Foreign Trade Pattern of China (percentage in China's foreign trade)

Year	1970	1975	1978	1980	1983	1984	1986	1987
W. Europe	5.9	19.1	20.1	17.6	15.5	12.0	17.0	16.0
U.S.	0	3.1	4.8	12.7	10.3	12.1	10.0	10.0
Japan	21.3	25.7	23.4	24.3	19.4	26.0	23.0	19.4

Source of data: Issue No 7 of 1985, 1986, and 1987 of the "Monthly Report of Statistics" of the United Nations; 1986, 1987, and 1988 editions of the "Yearbook of China's Foreign Trade Statistics."

### Current Situation and Problems

Judged by trade relations, West European countries occupy a very important position in China's foreign trade. The above table shows that currently the ratio of Sino-West European trade is lower than that of Sino-Japanese trade but markedly higher than that of Sino-US trade. Chinese imports from West European countries are composed mainly of machinery, equipment, and chemical products. Among them, advanced industrial equipment has become the main source of Chinese imports in this category. Chinese exports to West European countries are composed mainly of farm, sideline, and special local products, light industrial goods, and chemical and pharmaceutical products. Primary and middle-and low-grade products account for 70 percent. But the ratio of Sino-West European trade in the foreign trade of West European countries is very small, less than 1 percent in both import and export. As a matter of fact, although the total volume of Sino-West European trade has increased substantially, this increase is still smaller than the increase in the entire foreign trade of West Europe.

China began to absorb foreign investment mainly after the implementation of open policy. During the 1979-87 period, China absorbed a total of \$36 billion in foreign investment. Of this, only 10 percent came from West European countries. Credit funds mainly came from Japan, the World Bank, and other international organizations. Direct investment mainly came from Hong Kong, Macao, the United States, and Japan. Of course, this generalized analysis covers up a prominent characteristic. That is: West European loans to China have increased substantially in recent years. Among West European countries, the Federal Republic of Germany is the main source of credit funds. It has provided over a half of such funds to China. The United Kingdom, the Federal Republic of Germany, and France are the main sources of direct investment. They have provided more than 70 percent of West European investment in China. What is worth pointing out is that although West European investment in China accounts for only a small portion of foreign investment absorbed by China, the scale of West European investment is relatively large. Statistics show that during the 1979-86 period, of all West European direct investment in China, 30 percent were projects whose average investment scale was lower than \$1 million, 12 percent between \$5 million to \$10 million; and 19 percent over \$10 million. Comparing with the investment scale of the United States and Japan, in 1986 the investment scale of average West

European projects was \$4.85 million, that of United States was \$3.19 million, and that of Japan was \$2.69 million. Moreover, the proportion of West European direct investment in productive investment was higher than that of the United States and Japan.

People always emphasize that there is no major political differences or fundamental conflicts of interests between China and West European countries and that there exist a basis and conditions for carrying out broad and comprehensive economic exchanges and cooperation between them. But in reality they have failed to reach the expected level. The main problems at present are:

1. Trade development is uneven, and it fluctuates substantially. The imbalance of trade development is manifested prominently in three aspects: 1) Trade profits are imbalanced. China has always had a trade deficit which is still on the rise. 2) Trade positions are imbalanced. The main expression of this is that the ratio of China in West European foreign trade is too small. 3) Trade structure is imbalanced. The main expression of this is that Chinese exports are composed mainly of primary products and middle- and low-grade products. These three factors have restricted the development of trade relations between the two sides. Take China's trade deficit for example. Since it is difficult to substantially increase export, the only way for China to reduce trade deficit is to reduce import from West Europe. This is a major cause of great fluctuation in the development of trade between the two sides.

2. The growth of West European investment in China is slow. On the one hand, West European investment in China is concentrated mainly on a few countries, and the potential of most countries has not yet been tapped; on the other hand, most companies, especially large ones, are still in the stage of exploration and observation. They have yet to set foot in many areas of investment which have good conditions. China has always had high hopes on West European investment in China, but the outcome leaves much to be desired. China has made fairly good use of the favorable conditions of West Europe in technology transfer, but it has failed to fully develop the potential in absorbing investment for wholly owned foreign enterprises and joint ventures. Marked progress is not expected to be made in the near future.

The problem is that China has high hopes on West Europe in broadening foreign trade and absorbing investment and technology, but there are many problems

in increasing exports, the progress of absorbing investment is slow, and it is hard to implement the strategy of shifting the focus to West Europe. West Europe considers China as a huge potential market, but it is not that easy to develop the potential of this market. Estimated potential may be far off from reality either in broadening trade or enhancing foreign investment. Many people think that the Chinese market is unstable and that the obstacle of investment climate and conditions in China is much greater than in other countries. Where on earth is the problem? It is worth further analysis.

### Further Analysis of Problems

China has contributed to quite a few of the problems. Problems on the Chinese side may be categorized as follows:

1. Export structure is abnormal. This is demonstrated mainly in three areas: 1) The ratio of primary products is too high. 2) There are too many low-grade products. 3) It is overly concentrated on a few hot-selling products. Such a structure not only affects the growth of China's export earnings but also restricts the potential for broadening China's exports. More importantly, it is incompatible with the demand structure of the West European market, creating structural restrictions. In exports, China often tries to make the market of the other side suit its existing resources (referring to production ability here) instead of adjusting itself to suit the demand structure of the other market. Because of this, on the issue of abnormal structure, China often shows great inflexibility. Consequently, after all these years of discussion of this issue, China has yet made any marked improvement in this regard. In view of the factor of domestic market, such a structure lacks the inner motivation of reform. A basic cause of this is the enormous demand of domestic market. The high demand of domestic market plus the irrational exchange rate cause export manufacturers to lose export motivation. Strong domestic demand causes supply shortage, and the "procurement war" drives cost prices sky-high, causing many products to lose advantage in the price competition of international market.

2. Foreign trade system is inflexible. The foreign trade system underwent major reforms in recent years, power was delegated to lower levels, and the agent system was implemented. However, the entire system still cannot suit the complicated and changeable climate of the world market. Insufficient understanding of outside market structure, slow reaction to changes, divorce of production from export management, and lack of coordination between the interests of export producers and departments have caused the low utilization rate of potential market, high cost of import and export, and the difficulty of overcoming the abnormal export structure. In sum, China lacks an effective, flexible, and exploratory foreign trade system.

3. Tangible and intangible investment climate is less than appealing in many respects. One of the main

problems regarding intangible climate is: China's administrative and management system differs too much from the current administrative and management system of Western companies. Prominent obstacles are excessive management levels and insufficient enterprise decision-making power in regard to management policy decisions. These obstacles have made it difficult for many foreign-funded enterprises (including joint ventures) "to start and develop." In operations, raw material purchasing, fund raising, and by-products sales may all be blocked due to clogged channels. Some raw material-seeking investment cannot be carried out often because of pricing and infrastructure (including transportation) problems. Some market-seeking investment cannot expand production often because of market barriers and managerial obstruction. Main problems of tangible climate are: a shortage of energy supply and backward infrastructure (transportation and communications), especially inadequate guarantee for basic supply needed by large-scale and cooperative investment projects. With regard to absorbing foreign investment, too many areas are opened up too fast without adequate preparation, causing many areas to exceed their present ability. There is a problem of "excessively high expectation causing the divorce from the possibility of reality." Difficulties resulting from this will in turn impede the in-flow of foreign investment.

4. Policy changes constantly and lacks long-term continuity in many respects. This affects not only trade but also investment. Since China is in the process of reform, constant adjustment and change of policy is unavoidable. But those constant "U-turns" and changes often directly affect the fulfillment of contracts, the rate of economic growth, the situation of credit market, and the enforcement of managerial rules and regulations. These sudden changes are manifested as instability in economic climate and lack of credibility in political climate. Under this circumstance, real problems are often confused with misunderstandings, causing a kind of "mental block."

Of course, the above is only a generalized analysis. Many microproblems cannot possibly be listed in detail here.

Major problems on the part of West Europe may be summarized into the following few areas:

1. West Europe has many different countries. Their markets are divided. Their structure and management are complicated. This has created great difficulty for China to enter their local markets, broaden trade, and carry out various kinds of integration and cooperation. Although the West European market as a whole is large, its foreign trade and investment are carried out mainly within West Europe. The internal trade of the EEC, in particular, accounts for over a half of the EEC's total foreign trade. In some countries, it accounts for 60 to 70 percent. Therefore, only a small portion is left for external markets, not to mention the acute competition. As far as West European trade is concerned, it is easy to

"import but hard to export." This situation is directly related to the structure of the West European market itself.

2. The protectionism of West Europe has set up numerous obstacles for those who want to enter the West European market. For instance, in the EEC market, China suffers much discrimination because it cannot enjoy the treatment of a developing country. In 1986, the ratio of Chinese export goods affected by nontariff barrier measures was 28.9 percent, of which, 49 percent was manufactured goods; whereas the ratio of other countries' markets was 20.3 percent, of which, only 20.5 percent was manufactured goods. The average ratio of developing countries was 17.5 percent, of which 31 percent was manufactured goods. This situation cannot but impede Chinese exports to West Europe.

3. Many West European companies lack a thorough understanding of the Chinese market and economic situation. They often lack flexibility in trade and pioneering spirit in investment. Because of this, under many circumstances, some West European companies are less competitive than other countries' companies, especially Japanese and U.S. companies. This situation is directly related to the fact that West European companies have long relied on internal markets. At the same time, judged from the situation as a whole, the Chinese market is not the focal point of their strategy although West European companies attach great importance to the potential of China's economic development. This situation has given West European companies elasticity in using Chinese commodities and investment market.

Of course, these problems are manifested in different concrete forms and cannot be analyzed thoroughly here. Some of the many problems concerning China and West Europe are caused by the economic structure, market structure, and management system of each side; others are caused by a lack of thorough understanding. The latter, in particular, involves factors of concrete operations as well as factors of geological and cultural differences. Therefore, it is extremely important to strengthen cultural exchanges and deepen the understanding of each other in addition to overcoming obstacles in concrete operations.

#### **Important Factors Affecting Future Economic Relations**

When we look into the future development of Sino-West European economic relations, we must consider the following factors:

1. China's reform and development. The progress of reform and modernization, which was started in the late 1970's, has injected vitality into the Chinese economy and caused it to undergo drastic changes. However, efforts to deepen the reform and further the modernization have encountered many difficulties. The question is whether or not China's current efforts to carry out rectification and improvement can achieve the following goals: 1) Overcome serious economic problems. The main task is to drastically reduce the two-digit inflation

rate, stabilize and rectify market order, improve supply, and increase efficiency. 2) Further deepen the reform. The main task is to establish a system of commodity economy, including ownership, circulation and exchange, and credit market system. 3) Open further to the outside and enable the Chinese economy to become more deeply involved in the global economic system. It is impossible for the Chinese economy to backtrack or restore the old system. The key to this issue is whether or not a relatively complete new system can be established and how long it will take to establish such a system. As far as recent development is concerned, the question is how long it will take China to free itself from the current predicament. This determines to a great extent all of China's foreign economic relations.

2. West Europe's own economic development. The West European economy has overcome the serious difficulties it encountered after the early 1980's. The economic policies and structural readjustment of West Europe have yielded results. The key is whether or not this trend can provide a basis for maintaining the stable and sustained long-term growth of the West European economy. West Europe, which has freed itself from economic stagnation and whose market is expanding continuously, has provided favorable conditions for broadening foreign economic ties and cooperation. What is worth pointing out is the effect of the construction of unified large EEC market. This depends to a great extent on whether the large unified future market develops further inward or outward. A large unified market that practices protectionism and discriminates against the outside will create obstacles in its relations with the outside. Of course, if the construction of the large unified market is completed, the competitiveness of the EEC market and the new set of operational mechanisms it built will create severe challenges for China. If China fails to follow and adjust itself to such development in a timely fashion, China will face more challenges than useful opportunities.

3. The future strategic setup of foreign economic relations of China and West Europe. The tendency of grouping is increasingly evident in global economic development. This trend undoubtedly has a profound effect on the choice of strategy of foreign economic relations of China and West Europe. As far as China is concerned, the formation and development of the Asia-Pacific economic group is a reality which must be taken seriously. Although China is very apprehensive about Japan's role as the center, it is beneficial for China to participate in various forms of cooperation and even integration, judged from both cultural background and geological advantage. Although this strategy is not adopted to replace the development of Sino-West European relations, the latter will be affected after all. As far as West Europe is concerned, along with the further reform and opening up of the economies of the Soviet Union and East European countries, an important task is to further develop economic relations with the Comecon countries while strengthening the construction of the

large unified market. Similarly, although strengthening economic exchanges and cooperation between East and West Europe does not replace the development of relations between West Europe and other countries, it will inevitably affect the economic relations between West Europe and China. For example, the direction of the flow of investment capital and the utilization of West European market will put pressures on China. Of course, under the abovementioned general environment, what is important is how companies and enterprises of both sides operate. International economic relations are reflected in macrocosm as national relations. The concrete manifestation of such relations is based on enterprise relations, or mainly relations between enterprises on the market. Based on this understanding, we should consider increasing and enhancing enterprises' ability to make foreign connections as the basic starting point in the development of Sino-West European relations.

Future international political and economic situations are favorable. China and West Europe both expect and have the conditions to overcome obstacles and push economic exchange and cooperation to a still deeper level. There is no need to be pessimistic about the development prospect of Sino-West European economic relations. The immediate problem is how to find a way to overcome obstacles and create a more favorable environment. As far as China is concerned, increasing its ability and improving its own environment is especially important. As far as West Europe is concerned, quite a few things may be done. Among them, the most important is to have more confidence in China's economic development and market potential, increase its own ability to compete, and provide a more favorable environment for expanding its economic ties and cooperation with China.

### Control, Management of Foreign Debt

90OH0007A Kunming JINGJI WENTI TANSUO  
[INQUIRY INTO ECONOMIC PROBLEMS] in  
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[Article by Bai Yu 4101 1342, Li Yiyuan 7812 6105 6678, and Sun Lizhao 1327 4409 3564: "Macrocontrol and Management of Foreign Debt"]

[Text] Utilization of foreign funds is a complex and policy-intensive job far-reaching in its scope. whether the anticipated results of foreign fund use will be achieved depends upon how such funds are put to use. The successes and failures of other developing nations around the world show us that one must take care to do a good job of macrocontrol and management when putting foreign funds to use; otherwise, problems difficult to surmount will be visited upon the economy, economic development and international prestige will be adversely affected, and possibly a debt crisis could ensue. Currently, our nation is laboring under more than \$30 billion in foreign debt, thus putting us among the ranks of the top twenty developing nation debtors. How to employ foreign capital so that it has the proper effect in

our economic construction, and at the same time skirt around the disastrous road that other developing nations have taken? We feel that it is critical that China take her actual situation into account and improve her control and management functions with regard to foreign debt.

As we give consideration to China's macrocontrol and management policies with regard to her foreign debt, we must take note of the fact that this matter is similar to the nation's macroeconomic policies and implicates all of the various territories and areas. Thus, any policies we formulate must be in accord with the following principles:

*First, the scope of foreign debt employment must fit well with the state of our nation and our macroeconomic policies.* Our foreign debt policies cannot be divorced from and operate independently of China's conditions and her macroeconomic policies. Looking at the current international capital markets and the political and economic situations both at home and abroad, we see that it is not difficult to get a hold of foreign capital. Thus, an important issue is keeping our contraction of foreign capital within the proper scope and making it conform to the requirements of our overall macroeconomic development strategy. Then we must consider such issues as who our creditors are, how much we are borrowing, and what form the loans take. This will ensure a foundation for our macrocontrol and management over foreign debt.

*Second, our foreign debt must be coordinated with several of the important indicators of our national economy.* Inevitably, contraction of foreign debt will show up in the social processes of production and circulation. In addition, foreign debt will link domestic production and circulation with the commodity and currency circulation that extends beyond our national boundaries. Thus, a rational scope of foreign debt will inevitably be subject to the restrictions imposed by the scope of reproductive structures in the national economy as well as inherent proportional relationships. Thus, we must consider, from the standpoint of overall balance, the proportions of accumulations and consumption, the proportions of currency circulating in the marketplace and commodity supply, and balancing among finances, credit, goods, and foreign cash reserves, so that these things fit well with the domestic auxiliary capacities, digestive capacities, and future repayment capacities, and the economy develops in a planned way based on coordinated proportions.

*Third, our foreign capital deployment structures must be made better.* From the standpoint of an economist, sustained economic growth is seen as being directly dependent on the superior deployment of capital sources. As one item that goes into making up the great national economic system, foreign capital, together with other elements of production, acts as a component in the force that drives the economy on toward growth. The experiences of other developing nations show us that



ill-suited capital deployments brought on by inappropriate economic development strategies and the concomitant ill-advised pricing policies have greatly lowered the overall economic results obtained by developing nations in their use of foreign capital, worsened the already existing dual economic structures of the developing nations, and in the end, shrunk the scope of the foreign debt capital that the nation can take on, and in some cases this has led to a debt crisis. Thus, we must take note of existing holes in our domestic tapestry, wisely adopt plans for deployment directions and key areas based on the demands of economic development at different points in time, and do a good job of rationally arranging the structures for putting foreign capital to use.

*Fourth, we must consider the results from our use of foreign debt.* The economic results of foreign debt use should not only be assessed from a microeconomic standpoint, but also, should be evaluated from a macroeconomic point of view. From a macroeconomic standpoint, our use of foreign debt should do such things as help us increase the national income, balance the national income between accumulations and consumption, bring in the appropriate advanced technology, promote rationalization and upgrading of the production structures and earn foreign exchange from exports, make our oft-used facilities more up to date and our technology improved, etc. From solely a microeconomic standpoint, it would be difficult to ensure that these things are done, and this is particularly true where the economic results produced by certain items are delayed in time. Macromanagement and control over foreign debt primarily means assessing the economic results stemming from foreign debt use on a macroscopic level.

*Fifth, the means employed in macrocontrol and management over foreign debt should be flexible and varied.* Macrocontrol and management cannot solely be carried out through administrative means; the interest relationships among every economic entity must be taken into consideration and we must draw support from macroeconomic management methods as we proceed. This means employing such diverse items as prices, interest rates, tax revenues, exchange rates, and financial subsidies in arriving at our goal of macro control and management over foreign debt.

#### **The Contents of Macrocontrol and Management Over Foreign Debt**

After having gone through the analysis above of standards and norms for macrocontrol and management over foreign debt and after having added to this the experiences of other developing nations, we feel that the following basic items should be included in China's macro control and management over her foreign debt:

##### **1. Keeping foreign debt within the proper scope.**

The first priority for macrocontrol and management over foreign debt lies in determining how much foreign debt should properly be taken on. If too much foreign debt is taken on, we will not be able to absorb it and

macroeconomic results will drop. If too little foreign debt is taken on, then we will not be able to fully utilize another nation's idle production capital and investment opportunities and we will lose a portion of our potential for economic growth. Generally speaking, the proper amount of foreign debt that a nation can take on is determined by the abilities of that nation to assimilate and absorb foreign debt. A nation's ability to assimilate foreign debt is determined by that nation's level of technology, its level of management, the quality of its labor force, and so forth, including such things as the amount of foreign exchange reserves the nation has and its international revenues, and the domestic supplies of auxiliary funds, capital, shipping, and goods, and so on. Short term qualitative changes in these elements cannot be expected. Thus, we can measure China's proper scope of foreign debt assumption by reference to repayment rates. Internationally, it is generally recognized that there are two safety boundaries for foreign debt. One is in keeping repayment rates at under 20 percent. The other is keeping debt surpluses at or under the total amount of exports for that year. The first is more important for it measures the actual ability of a nation to make repayments in any given year. Thus, it also measures the overall amount of debt that a nation can carry. Repayment rates possess certain comprehensive characteristics—they reflect both the state of a debtor nation's export revenues and national economic development, and also take into consideration the conditions on newly assumed debt, the repayment deadlines, the capital and interest payments on loans, and furthermore, they are helpful in making international comparisons. Although repayment rates cannot act as a panacea, they are a useful analytic tool. The repayment rate is also the primary indicator used by World Bank, U.S., and Japanese experts in budgeting the scope of China's foreign debt. Thus, taking as a premise correct macroeconomic decisions on our part, primary use of this indicator in conjunction with consideration of other elements will allow us to determine the feasible scope of foreign debt for China.

Currently, our repayment rate is under 10 percent. However, in recent years our foreign debt has grown too quickly—between 1982 and 1986 the average growth was 22 percent. The growth rate for 1985 was 23.5 percent greater than that for 1984. The growth rate for 1986 was nearly double of that for 1985. And the growth rate for 1987 was 46.3 percent greater than that for 1986, greatly exceeding GNP growth, while imported production materials have accounted for around 80 percent of these numbers in recent years (with 60 percent of this being raw materials). In the coming years we will not have much flexibility that would allow us to cut back on imports. According to the predictions of experts concerned, by the 1990's our debt repayment rate could exceed 25 percent, in the next few years there is no way export development can catch up with the speed at which we are taking on debt, our foreign exchange reserves are paltry, and we do not have much room to maneuver. To give ourselves some breathing room, World Bank and

Japanese experts suggest that a proper debt repayment rate for China would be around 15 percent. In effectuating macrocontrol and management over our foreign debt we should adopt this benchmark as a proper indication of how much foreign debt is appropriate for us.

## 2. Control and Management Over Foreign Debt Deployment

When similar amounts of foreign capital are employed in different ways, different effects are noticed on China's economic growth. When foreign debt is employed in rational directions, economic structures become informed by this rationality. We feel that macrocontrol and management over foreign debt deployment should be done with the following principles in mind: (1) ask whether the deployments are in concert with our production policies and whether they assist us in adjusting our production structures and making them more rational and of a higher grade; (2) ask whether the deployments will bring both micro and macro economic results; (3) ask whether the repayment dates for the loans are linked up with the structures of foreign debt deployment; (4) ask whether the deployments assist us in furthering our technological progress and introducing the appropriate advanced technology; (5) ask whether the deployments will help us earn foreign currency through exports. Currently, our use of foreign capital is yielding less than ideal results. This is shown primarily in the way our foreign debt development remains detached from development of the entire national economy, in the way our scale economies are yielding poor results, and in the way our foreign capital is of no assistance in bringing us lasting, reverberating economic results. Huge amounts of foreign loans have been employed in nonproductive items and service-type items. Too little has been deployed toward infrastructural departments and departments that can earn foreign exchange. As a result, many loans have been left with no means of repayment and recent economic results have been dismal. Based on statistics compiled by concerned departments, of the \$16.714 billion in long-term loans that China had taken on by the end of 1986, only 19 percent, or \$3.185 billion, was deployed in departments involved in transportation, communications, or energy resources. Huge chunks of the loans were diverted to the localities where they were used for the production of durable consumer goods, construction of hotels, and establishment of electric production lines in homes. Not only did this spur on a precipitous ripening of consumption, but it exacerbated the shortages of exchange available to infrastructural departments. As a result, we now must go great guns to turn this situation around.

We propose that in the days and weeks to come, loans from international financial organizations, foreign debentures, and preferential loans from foreign governments all be deployed toward items of industry where the economic results will be high but the financial returns low. This includes such items of construction as energy resource exploitation, communications and transportation construction, and communications centers. Hard

loans from the World Bank, export credit, and loans from certain governments should be deployed toward those departments where economic results and financial returns will average out. This includes such items as the chemical industry, the metallurgy industry, the electric power industry, and the petroleum industry. Commercial loans and short-term debts should mainly be deployed toward items with quick turnover and high profits where the economic results are low to middling but the financial returns are high including light textiles, electric machinery, petroleum, and tourism, but we should not allow "short line items to be widely used." As for the processing industries, fledgling technological production, development of new product technology, and other such risky investments, foreign loans should be employed only sparingly if at all. Instead, we can employ such direct methods of using foreign funds as "the three forms of import processing, and compensation trade" and "enterprises with three capital sources." As for the construction materials, nonferrous metals, coal, and other such industries where economic results and financial returns are equally low, we should there too employ foreign loan capital sparingly if at all. To the greatest possible extent, payment for raw and supplementary materials imports for industry and agriculture should be made out of the foreign exchange retained by the localities, and aside from those items which pay their own foreign exchange costs of raw and supplementary materials through processing and selling exports, where the item itself won't earn enough foreign exchange to make the payment for the imports that went into it, foreign debt should be contracted only where the raw materials are urgently needed.

## 3. Management and Control Over Foreign Debt Structures

A rational debt structure will avoid having payment dates lumped too closely together and the final deadline for payment occurring too soon. It will preserve the important guarantees of relative stability of the foreign debt and foreign capital use achieving the anticipated results. Looking at the overall debts we currently are saddled with, we find that commercial loans and short-term debts are too great, the creditor nations and markets are too concentrated, our foreign currency selection is not spread out enough, and this all indicates that our foreign debt structures are irrational. To bring out the fullest extent of economic efficiency from our foreign debt, we must set about making rational arrangements of our foreign debt structure in an objective way. It is our view that to do this, work on the following items must be strengthened:

*A. Management of foreign debt sources.* Foreign debt sources can be divided into two broad categories: preferential loans from foreign governments and international financial organizations, and commercial loans from international financial markets, including such things as the issuance of international debentures. The conditions on these two categories of loans are dissimilar. Thus, we should pull together all of our knowledge

about our actual conditions in China when we make a loan selection so that our loans are mixed in the most beneficial way for us. Loan selection should be in accord with the following principles: (1) make use of preferential loans to the greatest extent possible; (2) cut back on use of commercial loans to the greatest extent possible; (3) we can take on a few more loans where the new loan replaces an old one; (4) we should cut back a bit on the loans that have to be repaid within the initial 5 to 10 years of the life of the item as soon as possible.

*B. Arrangement of the structures for debt repayment deadlines.* The structural rationality of debt repayment deadlines is a primary indicator of whether a debt structure is good or bad. Generally, the repayment structures of debts are comprised of long-term, short-term, and medium-term repayment periods. The ideal structure would be an escalating one where long and medium-term loans preponderate, and short-term loans are in the minority. Although it is easier to raise money through short-term rather than long-term debt, short-term debts are more easily rocked by upheavals in the international financial markets, they are more risky, interest rates are higher, and it is easier to run into difficulties in fully paying off a short-term loan. If we cannot link up the deadlines for repayment of debts with the periods wherein return on investment is earned, if we excessively rely on short-term debts for our construction needs, and if foreign capital sources are not stable, a debt crisis could easily ensue. International experience shows us that short-term debt is easily kept under 25 percent, but, over 50 percent of China's debt is short-term. It would be difficult to bring this down in a flash, but we should give consideration to bringing down our short-term debt at a gradual pace. In addition, we should pay more attention to spreading out the principal and interest repayment periods. Otherwise, the occurrence of repayment deadlines could present us with serious difficulties in repaying our debts. In recent years, debt repayment structures have tended to become more lumped together, and this is something to which we need to pay more attention.

#### **4. Control and Management Over Interest Rate Structures and Loan Currency Structures**

The main goal of managing interest rate structures lies in reducing the risk that interest rates present. The interest rate on a debt is the primary factor that influences the overall cost of the debt. Interest rates are divided into fixed and variable rates. The interest rate on a debt and whether or not there is overall balance in the interest rate structure of a debt have an effect on the total amount of interest that must be repaid on a debt. If the control is not proper, a sudden rise in the market interest rates can mean problems in repaying the debt. This is most pronounced with reference to variable interest rates. Also, we should pay attention to which form of currency we choose for our loans. After all, this is related to the issue of risks from exchange rates. Exchange rates more sensitively reflect changes in the international political and economic environment than do interest rates. While

assuming liability for a debt, if we choose a currency unit to peg our debt to that subsequently rises in value, then the cost of our loan will rise, and our debt burden will grow heavier. In recent years the Japanese yen has risen in value, and the U.S. dollar has depreciated. Nations that took on loans pegged to Japanese yen have been hurt by this, but those who pegged their loans to the U.S. dollar have benefitted. We propose that henceforth the following measures be adopted so as to reduce our exposure to risks stemming from interest rates and exchange rates: (1) Diversify our methods of raising money, and assess the pros and cons of such things as preferential loans, foreign debentures, buyer credit, and commercial bank loans, and distribute our use of the various items accordingly. Currently, China has not much ability to absorb foreign exchange. We should make more use of preferential loans provided by governments and international financial organizations, and continue to issue low interest rate, long-term debts on the international financial markets. (2) We should put our foreign credit currency system in line as much as possible with our import and export currency structure. In this way, we can ensure that when exchange rates and interest rates rise and threaten to harm us, we can remedy the differentials out of our import and export foreign exchange accounts. (3) We should seek to raise capital from a greater variety of markets. Issuing debt paper and borrowing capital from only one foreign capital market can harm one's credit rating, and increase the risks that come from exchange rates. (4) We should diversify our selection of interest rates and exchange rates, and avoid getting locked in at one interest rate. International financial organizations suggest that, where the differences among interest rates are not large, the best way to go is to carry half your loans with fixed interest rates and the other half with variable rates. When interest rates are low, make use of fixed interest rates, but when interest rates are high, make use of variable interest rates. This requires strengthening our forecasting work with regard to trends in interest rates and exchange rates. Considering both interest rates and exchange rates together, we should not solely seek out currency loans where the interest rates are low. If the currency appreciates, this means that the actual value of real currency that has to be expended in paying off the loan when it comes due goes up. If the appreciation in the currency is greater than the bargain one got from choosing this loan over other loans with higher interest rates, then this loan turns out to be a loser. Thus, when assessing any given currency loan, one must also give due consideration to possible shifts in exchange rates. (5) Diversify the currencies. That is, use both hard and soft currencies together. We could make use of the special cashing rights European currency units or international currency funds to act as a peg for our foreign debts. (6) Diversify the means by which we protect the value of foreign debt. To reduce the risk of losses stemming from changes in interest rates or exchange rates, we can make appropriate use of such "financial updating" tools offered currently in the international financial markets as note-issued funds (NIFS), and currency and interest

rate exchanges (SWAP), options, debt assumption, forward rate agreements, and closing accounts with diversified currencies. All of these techniques are ways to stabilize and protect current values.

### 5. Getting a Firm Grip on Results of Foreign Debt Employment

Results from foreign debt employment are the basic starting point for conducting macrocontrol and management over foreign capital use. Aside from the scope and deployment of foreign capital, employment results of foreign debt are primarily determined by whether or not foreign debt employment, in the end, builds up actual productive capacities. This means looking at the time scales created by the productive forces, the degree of competitiveness of the productive mechanisms (particularly international competitiveness), how appropriately the productive forces are deployed, and other factors. We feel that we must give more emphasis to strengthening control and management in the following areas, and ensure good results from the employment of foreign debt.

A. We must strictly control the scope of construction for items that are making use of foreign debt. If the construction scale is unduly large, it could have an adverse effect on the ability of the nation to make good on its foreign debt on time through the results of employment of the same, and buildup of the productive forces will be a long time in coming. This has been a key factor in the experiences of many nations that have undergone debt crises. A recent investigation by the World Bank shows that in the 1980's six nations that borrowed money ended up with serious problems owing to an insufficiency of funds after construction began or else an insufficiency of funds to carry out post-completion maintenance. If domestically we do not have the capacity to provide the necessary complementary items for construction of items employing foreign debt, then there is no way for us to avoid having the scope of construction growing out of hand. Thus, we should control the overall scope of construction for items using foreign capital to within the proper bounds, taking due notice of our actual conditions.

B. Establish productive mechanisms that are competitive, and strengthen our capacity to earn foreign exchange. A focal point in employing foreign capital is to earn foreign exchange. Only when lots of foreign exchange are earned can one ensure that principle and interest on the debt can be paid and the nation will be able to make further use of foreign capital. The productive forces brought on through employment of foreign capital should make a positive contribution toward furthering China's international competitiveness. Thus, we must expend effort in resolving the issues of national productivity and economic scales. If the issue of national productivity is not resolved, production may develop and we may import more spare parts but the resulting products will still not be overly competitive in the international markets. In addition, economic scales are

also an important factor in determining product competitiveness. This is because, before one can enjoy a superior position in such areas as production costs, prices, market coverage, and updating and renovating, one must have the proper economic scale. Thus, employment of foreign capital should contribute toward improving national productivity and economic scales.

C. Strengthen macromanagement and avoid having too many forces in contact with the outside. When a nation has a fairly weak grip on its macrocontrol and management over foreign debt, too many forces engaged in contracting for foreign debt not only leads to loss of control over the foreign debt, and blind duplication in foreign capital deployment and use, but also can raise the costs of the loans, increase the burden of loan conditions, and visit losses upon the nation. Thus, we must strengthen our work in unifying our forays to the outside world, avoiding having too many forces contracting foreign debt on their own and making unnecessary duplications and blind capital deployments. If we cannot do this, then the labor in our society will waste huge amounts of foreign exchange.

We present the following suggestions as an aid in doing a good job of controlling and managing our foreign debt in a macroeconomic way. First, we must establish a unified system for adjusting, controlling, and making decisions regarding the broad field of foreign capital employment, and perfect the decision-making process. We must take note of the way in which our decisionmaking regarding foreign capital is moving from a unitary system to the current state where many systems concurrently offer comprehensive decisionmaking, coordination, and control, the fact that comprehensive decisionmaking can understand and formulate policies for foreign capital, and the requirement that this be in line with national economic development. Also, we must consider the operations and suitability of foreign trade, financial, and monetary systems. Coordinated control over foreign trade also can be achieved only through simultaneous control over foreign trade, financial, and monetary systems. We must establish an authoritative organ, coordinate foreign capital employment across the board, and do a good job of overall balancing. In addition, we must also make comprehensive use of the various means of macroscopic adjustment and control at our disposal, properly arrange the annual and long-term plans for China's foreign capital usage, guide and organize our use of foreign capital by focusing on balanced international revenues, and properly arrange the amounts, structures, fund allocation, and repayments of all of our debts, short-term or long. Thirdly, we must enact sound regulations for management over foreign debt, pull together our administration of foreign exchange and foreign debt, place the borrowing activities of every region, department, and unit within the comprehensive strictures of the law, avoid having too many forces going outside to borrow, put a halt to new forces and elements going abroad in their own capacity to contract debt, and cut back when necessary on those forces and elements that

are currently taking on foreign loans. Fourthly, establish a system for predicting, policing, supervising, and controlling foreign debt, make timely transmissions of information, and create conditions for strengthening macro-management of foreign debt. In addition, we must rapidly formulate industrial policies for the use of foreign capital in accordance with our actual conditions, unify the arrangement of foreign capital utilization based on the levels of development of the productive forces of each of the various departments and regions, see to it that our limited amounts of foreign capital lead to the deserved results, and promote the healthy development of our national economy.

## LABOR

### Public Reaction To Wage Reform

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[By Xin Zhangxing 0207 7022 2502: "Guidance Urged for Public Views of Wage Reform"]

[Text] As a socioeconomic project involving the financial interests of thousands and thousands of families and households, wage reform intrinsically evokes exceptional sensitivity. Each specific measure inevitably brings a swift public reaction. This was proved many times when earlier wage reforms were carried out.

What then was the public reaction to earlier wage reforms? They were both praised and condemned. Those who praised them felt that wages and living standards of the work force obviously improved as a result of a series of measures then taken to reform wages—measures which initially broke up the former egalitarian wage distribution structure. The 1985 wage reform especially put the wage system of people working in offices and public agencies on a new track. Total wages and economic efficiency was tied together in more and more enterprises. The principle of distribution according to work was further implemented within the enterprises. And promoting improvement in enterprise economic efficiency had the expected benefit of arousing the enthusiasm of workers and staff members.

Those who condemned the earlier wage reforms felt that they were not a complete success. However, the basis for their condemnations was by no means identical for people from differing strata. In fact they were even contradictory. Some from theoretical circles felt that the measures were inappropriate and caused wages to erode profits and promoted an inflation in consumer funds and an imbalance between overall supply and demand. Some felt that the earlier wage reforms not only did not destroy the old egalitarianism but widely generated a new one, with wage relationships becoming ever more chaotic. Intellectuals complained that the income for mental labor was inverted. Office workers found through statistics that, in order of sequence, the average wage level for the basic stratum was in last place. This gave rise to loud

cries of unfairness. Enterprise workers and staff members were also not very satisfied with wage reform. The results of a September 1988 survey questionnaire from a survey team of the department of unified planning in the Ministry of Labor that was responded to by 2,391 workers and staff members from the five cities of Shanghai, Shijiazhuang, Jinzhou, Zhaoqing, and Xian showed that 60.7 percent were not too satisfied with the reforms of the enterprise wage system that took place in the past few years. Of those responding, 48.9 percent felt that there was no appreciable improvement in actual living standards; 24 percent felt that wage distribution was still egalitarian and that it did not embody the principle of distribution according to work; 20.2 percent felt that the internal distribution was unfair; and 6.1 percent had other opinions.

How should we regard the opinions on wage reform with respect to each stratum that is represented? Does a public reaction of scant praise and many complaints mean that wage reform had more mistakes than it had successes? We do not feel that this is necessarily the case. It is crucial that an objective, impartial, and scientific analysis of the public reaction be made to get a clear understanding of the various reasons why people were not too satisfied with the earlier wage reforms. According to my analysis, there are three main reasons why people were dissatisfied in their opinions and feelings about wage reform:

1. A number of problems indeed do exist in wage reform itself. As far as the wage system goes, many enterprises have essentially left the old system intact, and offices and public agencies that may have changed to the new system have in fact not consolidated or completed it. Various and evident abuses exist in the wage system. As far as wage relationships go, the old problem of egalitarianism still has not been completely resolved. Some necessary disparities have not been created, and some that should not exist have instead widened. And the tendency to make upward comparisons [panbi 2372 3024] increases more. The method of linking the total wages of an enterprise with its economic efficiency still has not been perfected. Some enterprises are more pleasant to work in than others. Office workers have a wage "platform." These things have caused strong dissatisfaction.

As far as the system for increasing wages go, in the last few years wage increases have not come slow. However, they have lacked a scientific basis and regularity. They have been on and off, and the fluctuations have been great. This has often caused people to have a "squeezing-on-the-bus" attitude toward wage adjustments. Those who have already squeezed on feel they are entitled to what they got and even feel that the wage increases were too small. Those who did not make it are full of resentment. Even though they might get a wage increase on the next round, they still feel they are a step behind the others and that they have been treated badly. From one point of view, this explains the occurrence of this peculiar lack of gratitude.

2. Wage reform suffers for the faults of other phenomena. Because of a lack of understanding of the true situation or because of feelings of dissatisfaction caused by other things being diverted to wage reform, certain socioeconomic problems are reflected in the area of wage distribution. People easily tie this to wage reform and cast blame on it. Thus, because of the large extent to which prices have continued to climb and the food basket diminish, people have naturally become dissatisfied. Moreover, this dissatisfaction with prices must, to a large degree, account for the urgent demand that wages be increased. When these demands are not satisfied or not fully satisfied, people's feelings of dissatisfaction with the rapid price increases are shifted to wages and their anger vented on wage reform. In addition, certain strata of people in society, especially nonsalaried people, are earning excessively high incomes. This creates indignant feelings among the work force when they compare incomes. These feelings are naturally converted to strong demands for an increase in wages.

Under the present situation where wage increases cannot be brought up to those excessively high incomes, people's feelings of dissatisfaction with the unfairness of social distribution are likewise shifted to wage reform. It is a misunderstanding on the part of comrades from theoretical circles who blame wage reform for bringing about an inflation in consumer funds. What has actually occurred is an inflation in consumer demand not an inflation in consumer funds. Of the various components of consumer demand, there has been no inflation in wage funds. The inflation has occurred in the other components.

3. The hopes for an increase in wages by workers and staff members are too high. Economic reform starts with incentives for gains. Such measures as using wages to pay for debt, reducing taxes, and allowing profits gave people the chance to taste the sweetness of reform during its initial period. The advantage in this was that it won the support of the masses. The disadvantage was that, once it got started, it created a mentality which was dependent on the government to delegate authority, to permit profits, and for other preferential treatment and which failed to rely on a person's own diligent labor to increase his income. In addition, the unhealthy social tendency of consumer indulgence developed and spread, the expectations of the work force were raised, and their appetite for wage increases grew and grew. Some say that under the hard pressed conditions we are going through we cannot pay out much money from our straitened finances to raise everyone's pay. Even though we could squeeze out a little money to use for wage increases, it would be difficult to satisfy the exceedingly huge appetites that have developed. Others say that, even when wage adjustments are made and those who have argued until they were red in the face for a one-level increase in wages are actually given increases of one or two levels, their cravings are still not necessarily satisfied, the reason being that commodities are too high and their appetites too big. Moreover, the continuing extent to

which prices have increased and the lag in monetary wage increases since 1988 have, in fact, led to stagnation in actual wage increases and even to negative wage increases for workers and staff members. Naturally, this would cause them to be dissatisfied with wage reform.

Based on the above analysis, we think that to promote wage reform, especially to win the support of public opinion for wage reform, to genuinely bring into play the principle of distribution according to work, and arouse the enthusiasm of the masses of the work force, we should begin to accomplish the following three aspects of work:

First, we must create a favorable external environment. Wage reform is not an isolated project. To a large extent it is subject to the influence of external factors. If we want wage reform to be smoothly implemented and anticipated results obtained, we have to work hard to create a favorable external environment for it. For this purpose, we must accomplish the following: We must alleviate the problems of inflated social demands and unfair social distribution. This is not a job for one department or several departments. It is a matter of overall importance where all factors must be taken into consideration and comprehensively administered. We must put in order the relationship of wages with financial administration and tax revenues so that reform measures will form a matching set and the relationship between increased wages and increased profit margins is handled properly. We must put in order the relationship of wages and prices to conscientiously ensure that the actual wages of the work force do not decline because of price increases or least do not decline to a great extent. We must do a good job of linking reform of the wage system and reform of the labor personnel system into a matching set to enable wage distribution to be built on the scientific and rational foundation of labor organization. In addition, we must also properly handle the relationship between material rewards and moral encouragement and strengthen ideological and political work.

Second, we must closely link wage reform with improvement of the economic environment and rectification of the economic order, and through such improvement and rectification, consolidate the results of reform and correct errors. At the same time, we must further promote wage reform on the basis of improvement and rectification. We must make it perfectly clear that the purpose of wage reform is to implement the principle of distribution according to work and to arouse the enthusiasm of the workers and thus promote the development of socialist economic prosperity. Looking at it from the point of orientation, we must gradually form differing wage systems appropriate to the respective special characteristics of enterprises, offices, and public agencies, with each of the three following its own path. We should, within a short time, make every effort to improve and perfect the methods of linking total enterprise wages with enterprise economic efficiency to enable enterprise wage increases to be based genuinely on economic efficiency. We must

strengthen macrocontrol of wage funds and conscientiously prevent their inflation. We must strengthen management of income outside of wages and control the risky tendency of indiscriminately paying in kind and cash. We must adjust the income structure of the work force by increasing the basic wage proportion. We must set up a regular mechanism for wage increases. Wage increase plans must be effected each year and closely tied to improvements in economic development and labor productivity. Short steps are better than double time. Nor do we want to stop and go. In addition, we must gradually raise the wage level of skilled laborers to reverse the decline in their incomes.

Third, we must strengthen guidance of public opinion, and improve propaganda and education work. We must ensure that people recognize that wage increases must be based on hard work and economic development and that they cannot entertain the extravagant expectation of dumplings falling from the heavens. It is especially true that, during the hard-pressed times which we are going through, wages cannot be increased by too much. We must help people understand the necessity and rationality of creating income disparities and, by overcoming egalitarian ideas, increase their psychological toleration of these disparities. We must promote a consciousness which opposes "seeing money in everything" and overcome the automatic tendency of upward comparisons.

## TRANSPORTATION

### Shortage of Railroad Construction Funds

4006005 Beijing RENMIN TIEDAO in Chinese  
13 Sep 89 p 1

[Article by staff reporter Wang Fale 3769 4099 8021: "Will Passenger Transport Price Adjustments Solve the Problem of a Shortage of Railroad Construction Funds?"]

[Text] After the prices for passenger transport tickets are raised, will the railroad's problem of a shortage of construction funds be resolved? Will it still be necessary to continue the policy of "Double Increase Double Economy?" This reporter covered the subject, which concerns everyone, in an interview held on 7 September with Comrade Zhang Youmin [1728 2589 3046], Chief Economist for the Ministry of Railways.

### The Extent of the Current Price Adjustment for Passenger Tickets is Rather Large

Comrade Zhang Youmin said, "The extent of the current passenger transport price adjustment is rather large, and is the first since the founding of our People's Republic. At this crucial moment in time, making this type of major policy decision fully reflects that the party Central Committee and the State Council have attached great importance to railroad work. We railroad workers should not fail to live up to the expectations of the party Central Committee and the State Council. We should

redouble our efforts, struggle arduously, work diligently, and earnestly carry out the policy of 'careful calculation and strict budgeting, economizing on investment, improving management, and expanding transport capacity.' The revenue from the railroad's passenger transport price adjustment and the railroad's limited funds should be well utilized to expand the railroad's transport capabilities and further aid in the development of the national economy. We should by no means think that, because passenger transport prices have been adjusted and revenue is increasing, we may spend money freely."

### After the Passenger Ticket Price Adjustment, the Railroads Will Be Able To Increase This Year's Revenue by Approximately 2 Billion Yuan.

Chief Economist Zhang Youmin stated, "It is estimated that the current railroad passenger price adjustment will increase revenue by approximately 2 billion yuan. However, this year the railroad faces a construction fund shortage of 6 billion yuan. In comparing the two, we find the gap is still rather large. For this reason, this year we must continue to a large extent to reduce the scope of our investments." He pointed out that the railroad's capital situation also does not allow for much optimism next year; the situation will still be serious. According to preliminary estimates, the shortage of funds may be greater than this year's shortage.

### The Railroad Still Faces the Problem of a Shortage of Funds.

In the conversation with the reporter, Chief Economist Zhang cited four reasons:

1. Although the extent of the price adjustment for passenger transport is rather large, and the revenue increase is not at all small, the revenue generated by passenger transport is only 22 percent of the railroad's total income from transportation. Moreover, freight transport prices, which account for more than 70 percent of the total income in railroad transport, were not adjusted this time. This time passenger transport was raised nearly 2.2 fen per passenger-kilometer. But according to unified calculations of the turnover volume of passengers and goods, this corresponds to an increase of 0.48 fen per ton-kilometer. That is to say, the total amount of the price increase is still not enough to compensate for increased costs. In the past 5 years (1983-1988) cost outlays have increased by 0.55 fen per ton-kilometer.

2. Because prices for external raw and processed materials and fuel will continue to rise, the railroad's increased expenditures will exceed its increased revenue. In the past 2 years, railroad transport costs have risen 3.6 billion yuan per year, while transport income has only increased by 1.8 billion yuan per year. Railroad profits have successively decreased by 1.9 billion yuan annually, and this trend is still developing.

3. The railroad's debt increases year by year, and the interest payments are growing larger as well. At the end



of 1988 the railroad's debt was 13.2 billion yuan and at the end of 1989 it will approach 17 billion yuan. Moreover, it will increase yearly by approximately 3 billion yuan or more, and the annual interest rate on loans will climb to 15.42 percent. This means the railroad's expenditures for principal and interest payments will grow ever larger. In 1988 it was 760 million yuan, this year it has grown to 1.85 billion yuan, and by 1990 it will reach 2.56 billion yuan.

4. The financial obligation to the state will increase. With regard to the railroad's income from passenger transport price adjustments, this year the State Financial (Department) requires no remittances other than the 5.3 percent business tax that must be paid. Next year, however, the State Financial (Department) will require a relatively large amount remitted. For these reasons, next year railroad funds will still face serious shortages. This will require sufficient understanding and planning.

#### **Continue To Struggle Hard and Build up the Railroads Through Thrift and Hard Work.**

Chief Economist Zhang stated that the most important item is that the entire railroad, from top to bottom, cannot turn a blind eye to or "breathe a sigh of relief" about the problem of funds. It should continue to act in the spirit of the Ministry of Railways, which in March issued "An Urgent Circular Concerning Carrying out Stringent Controls, Vigorously Developing Increased Production and Thriftiness, and the Campaign to Increase Income and Reduce Expenses." It should work to increase income and reduce expenses within the transport business, industry, construction, supply and marketing, operations and other units. Basically speaking, according to the gist of the circular, it is necessary to work to achieve the "Eight No Changes":

1. The objective of increasing transport and production, accelerating income growth and guaranteeing income does not change.
2. The objective of working harder to reduce consumption by carrying out plans to rigorously control expenditures and strictly control increases in consumption funds does not change.
3. The requirement to reduce management costs and cut down on travel, conference, and administrative expenses does not change.
4. The method for strictly controlling and reducing the social groups' purchasing power, and for reducing purchase quotas does not change.
5. The objectives and requirements for taking charge of making up deficits and increasing profits do not change.
6. The spirit of strengthening fund management, speeding up fund circulation, and increasing the benefits of fund use does not change.

7. The requirement to vigorously promote a diversified economy and strengthen diversified economic management does not change.

8. The principle of strict financial and economic discipline and of strengthening property supervision does not change.

In essence, it is necessary to adhere to the spirit of building railroads and handling all matters with thrift and hard work, and struggle arduously through these hard days.

Chief Economist Zhang Youmin said that the leading cadres and workers from all levels of the railroad industry must have a clear and unified understanding of the situation. They must try hard to increase transport and revenue, and to strictly control expenditures. Only then can this year's objective of "Double Increase Double Economy" be realized. The railroad can certainly make a great contribution to the development of the national economy.

#### **Three Highways Open to Traffic in Shandong**

*SK1110133089 Jinan Shandong Provincial Service in Mandarin 2300 GMT 10 Oct 89*

[Text] The Yantai-Laiyang and Longkou-(Huangcheng) Highways, two first-grade highways newly built in our province, formally opened to traffic on 8 and 9 October.

Wang Zhanyi, vice minister at the Ministry of Communications, and Zhang Ruifeng, vice governor of the province, cut the ribbons for the highways' opening to traffic.

The Yantai-Laiyang Highway, totaling 107.8 km in length and 27.5 meters in width, is a section of the Yantai-Qingdao Highway. This section is paved with asphalt. The designed speed is 100 km per hour. This high-quality highway is a key highway construction project of the state during the Seventh Five-Year Plan period. The total investment is 120 million yuan. The highway cuts through Zhifu District, Laiyang City, and Fushan, Qixia, and Haiyang Counties under the jurisdiction of Yantai City. Thus, the highway provides favorable conditions for the city's economic development.

The first-grade highway in Longkou City is a part of the National Highway No. 206. The highway is 31.5 meters in width and 17.7 km in length. The total investment is 25 million yuan. As of now, the transportation mileage of the province's first-grade highways reaches more than 540 km and this ranks the province first in the whole nation.

The Weihai-Wendeng Highway, the first road especially for motor vehicle transportation, formally opened to traffic on 10 October. This high-quality highway is 20 km in length and 18 meters in width. The designed speed is 100 km per hour. This is the first all-enclosed highway in the province.

### More Bridges Span Yellow River

OW1010123189 Beijing XINHUA in English  
1043 GMT 10 Oct 89

[Text] Zhengzhou, October 10 (XINHUA)—Seventy-three bridges now span the Yellow River, one of China's longest waterways. There were only three make-shift bridges before liberation.

This is the result of the massive construction effort since the founding of New China.

There are 16 railway bridges and more than 40 highway bridges, a local communications official said here.

Twenty-five bridges have been built on a 650-kilometer stretch of the Yellow River in northeast China's Gansu Province, he added. These bridges play an important role in developing northwest China.

Nine bridges have been built in central China's Henan Province, of which the Changdong Railway Bridge and Zhengzhou Highway Bridge are the longest in the country.

Before the 1970's, most of the bridges over the river were built with concrete or steel frames. In the past 10 years, advanced technology was introduced and the new bridges have long spans and capacities of more than 300 tons.

The highway bridge in Jinan, the capital of east China's Shandong Province, is the country's first cable suspension bridge with a prestressed reinforced concrete deck. The piers of the Zhengzhou Bridge, sunk 80 meters under the river bed, enable the bridge to survive any flood and earthquakes below 7 on the Richter Scale.

### Shanghai Harbor Development Plan Revealed

OW1210231789 Beijing XINHUA in English  
1209 GMT 12 Oct 89

[Text] Beijing, October 12 (XINHUA)—Shanghai will set up 40 berths capable of accommodating 10,000-ton ships and some small and middle-sized berths in the harbor area of Waigaoqiao, Luojing and Jinshanzui during the Eighth and Ninth Five-Year Plan periods (1990-2000), according to a Beijing-based newspaper.

Waigaoqiao and Jinshanzui Harbours are mainly for loading and unloading export cargoes and containers; while Luojing Harbour is mainly used for the loading and unloading of coal and dangerous articles.

The 277.5 km coastline will be used for the development of industry, tourism and forestry in addition to a section reserved for harbor construction.

Meanwhile, the harbor area of the Huangpu River will be renovated.

It is estimated that Shanghai Port will have an annual handling capacity of 197 million tons in the year 2000.

### Shandong Opens New Highway Sections

OW1210234689 Beijing XINHUA in English  
0847 GMT 12 Oct 89

[Text] Jinan, October 12 (XINHUA)—Three more sections of first class highway have just opened to traffic on the peninsula in north China's Shandong Province.

The newly opened 107-kilometer section of the Yantai - Qingdao highway has a speed limit of 100 kilometers per hour. The highway, which cost only 120 million yuan, is regarded as one of the country's best construction projects.

The rest of the 190-kilometer highway, linking Yantai with Qingdao, two of China's open coastal cities, is expected to be completed by 1991. After completion the travel time between Qingdao and Yantai will only be 2 hours by car.

A 20-kilometer highway linking Weihai with Wendeng and a 17.75-kilometer highway between Longkou and Huangcheng have also just opened to traffic.

### Sundry Berth of Jinzhou Harbor Opens to Navigation

SK3110001089 Shenyang Liaoning Provincial Service  
in Mandarin 1030 GMT 23 Oct 89

[Summary] On the morning of 23 October, the first 10,000-ton-class sundry berth of Jinzhou Harbor had a successful trial run. Since then, the history of there being no commercial port in western Liaoning Province turns a new page, and a new commercial port is added to China's navigation history. Located at 40.48 degree north latitude and 121.04 degree east longitude, and to the west of (Dabijia) Shan within Jinzhou bay, Jinzhou Harbor has superior natural conditions and has good conditions for taking shelter from the wind. In addition, Jinzhou is a traffic hub linking the places inside and outside Shanhaiguan, as well as being a center which collects and distributes goods to the region of eastern Inner Mongolia, thus occupying an extremely important strategic position. In December 1985, the State Planning Commission officially approved the building of Jinzhou Harbor; and in October 1986, construction of this harbor began. By October this year, the main part of the 3,131-meter-long embankment project and the sundry wharf were completed. During the Eighth 5-Year Plan period, while continuing to build the two berths, the province will strive to build four additional 10,000-ton-class berths for Jinzhou Harbor. In addition, the Central Military Commission has approved opening Jinzhou Harbor to the outside world.

### Airport Boosts Island Economy

OW2610120189 Beijing XINHUA in English  
0853 GMT 26 Oct 89

[Text] Shenyang, October 26 (XINHUA)—The smallest civil airport in China has handled over 15,000 passengers since it went into operation last November.

Of them, 100 were businessmen from Japan, Hong Kong, Macao and South Korea.

Located on the eastern end of Dachangshan Island in Liaoning Province, the airport measures 10,000 sq m.

With investment from Changhai County, construction started on the airport in the summer of 1987.

At present, the airport only has one 20-seat plane, imported from Canada. Except for Sundays, the plane flies twice a day and only takes 27 minutes to fly 110 kilometers to Dalian, four hours less than the time it takes by boat.

With a runway 800 m long and 30 m wide, the airport has only 30 staff members and no air hostesses.

So far, the operations have been accident-free, said Zhang Hongcheng, director of the airport.

The airport has helped boost the island's economy, Zhang said.

#### **New Air Route To Link Shanghai, Changsha**

*OW2610050989 Beijing XINHUA in English  
0258 GMT 26 Oct 89*

[Text] Shanghai, October 26 (XINHUA)—China Eastern Airlines will open a new air route between Shanghai in East China and Changsha in Central China November 1.

The MD-82 planes which will fly on the route will use the newly-built Huanghua Airport in Changsha.

The flight is scheduled for every Wednesday between the two cities, and it will take an hour and 35 minutes.

#### **Hong Kong-Beijing Bus Service To Start**

*OW3010181989 Beijing XINHUA in English  
1513 GMT 30 Oct 89*

[Text] Hong Kong, October 30 (XINHUA)—The Citybus Ltd of Hong Kong plans to open a new service of bus route from Hong Kong to Beijing next year.

The whole journey will take about 10 days passing through several large cities in the mainland. Some issues related to the route and bus fares are now under discussions between the company and the Chinese departments concerned, according to company sources.

The sources said that the company will purchase luxury buses from the Federal Republic of Germany. The service is expected to start next March.

The company is now operating a Hong Kong-Shenzhen through bus service which carried a daily average of 300 passengers in recent months and of about 800 to 900 passengers in holidays.

The latest figure shows that the average daily passengers in the first three weeks of this month registered a 45 percent increase over the same period of last year.

## **AGRICULTURE**

### **Research in Animal Diseases**

#### **Ovine Progressive Pneumonia Tested**

*54000434 Beijing ZHONGGUO SHOUYI ZAZHI  
[CHINESE JOURNAL OF VETERINARY  
MEDICINE] in Chinese No 4, 22 Apr 89 pp 2-3*

[Article by Deng Puhui 6772 2528 6540, Wang Zhengdang 3769 2973 8093 and Su Zhong 4479 1813, Veterinary Medicine Department, Xinjiang August 1 Agricultural Sciences Academy; and Cutlip, R.C., and Lehmkuhl, H.D., American National Animal Diseases Center: "Serological Assay of the Prevalence of Ovine Progressive Pneumonia (Maedi)"]

[Abstract] An agar gel immunodiffusion test was used to assay the distribution of antibodies to ovine progressive pneumonia (OPP) in specific Chinese sheep herds. Serological specimens taken from 1,410 head of fully grown sheep in Xinjiang, Nei Monggol, Hebei, and Sichuan provinces in north and northwest China showed a virus-specific serological distribution rate ranging from 0 percent for sheep in Hebei to 6 percent for sheep in Xinjiang. The age-specific distribution rate among Border Leicester pure breed sheep ranged from 37 percent for sheep 1 to 4 years old to 53 percent for sheep 5 to 10 years old. Among third generation Border Leicester and Tian [3944] sheep hybrids (BHE<sub>3</sub>, it ranged from 8 percent for 1 to 4 year old sheep to 13 percent for 5 to 10 year old sheep. The pathogenic virus serological distribution rate for first and third generation Border Leicester and Tian sheep hybrids was markedly lower than for pure breed Border Leicester sheep (P less than 0.01). The OPP virus serological distribution rate for third generation Border Leicester and Tian sheep hybrids was markedly higher than for first generation Border Leicester and Tian sheep hybrids (P less than 0.01).

This two page article sets for the methods used and results obtained in the aforementioned antibody serological assay, as well as a discussion of the significance of the findings. The findings are largely summarized in four easy to read tables.

#### **ELISA Used in Diagnosis of Vesicular Stomatitis**

*54000434 Beijing ZHONGGUO SHOUYI ZAZHI  
[CHINESE JOURNAL OF VETERINARY  
MEDICINE] in Chinese No 4, 22 Apr 89 pp 47-49*

[Article by Huang Yunsheng 7806 6663 3932: "Indirect ELISA Diagnosis of Vesicular Stomatitis"] [txt][Abstract] This article explains the materials and methods used in establishing a rapid, dependable, and highly

sensitive enzyme-linked immunosorbent assay (ELISA) to help in the diagnosis of vesicular stomatitis. The author claims this assay to be superior in several ways to the combination of serological assays, serological neutralization tests, and complementary tests currently used to test for vesicular stomatitis. Not only does ELISA save time, save money and manpower, and require fewer reagents than the alternatives, but it also circumvents problems with nonspecific reactions from healthy animals, and nonsensitivity of some of the other tests in all but the early stage of the ailment.

The author explains his contention in a discussion that follows results of his experiments.

The author wrote this article while taking advanced courses at the National Veterinary Medicine Diagnosis Laboratory in Ames, Iowa. He acknowledges guidance from Dr G., A. Erickson and Kenneth A. Eenisess.

### Development, Prospect of Soil Science in China

40060008B Beijing TURANG XUEBAO [ACTA  
PEDOLOGICA SINICA] in Chinese  
No 3, Aug 89 pp 214-216

[Text of English Summary] Article summarizes the development of soil science in China. It covers soil geography, soil chemistry, agricultural chemistry, soil physics, soil mineralogy, soil bio-chemistry, soil microbiology and ecology.

Investigations of soil science carried out in China during the last fifty years are also reviewed.

1. Soil geography covers soil genesis, classification and cartography. The orthodox idea of bio-climatic soil types lies on the following five factors: climate (particularly temperature and precipitation), living organisms (especially native vegetation and human beings), parent material, topographical factor and time that parent materials are subjected to soil formation.

The classification of main soil types in China mainly follows the above mentioned factors given by the Soviet teacher V. V. Dokuchaev. However, agricultural soils cultivation has an overwhelming influence on soil development. For example, rice paddy soils are developed under alternative wet and dry conditions. The oxidation-reduction process governs the genesis of soil profile for which we have a specific classification system.

We are preparing a soil map of China scaled at 1:1 million.

The concept of diagnosis horizons is a quantitative measure for soil classification system. We are endeavoring to make such an innovation in soil classification.

Remote sensing is applied in the loessial plain of the lower Yellow River. This new technique, in connection with field soil survey, is being extended to various soil regions where the vegetation covering is scarce.

2. In the early period of soil science study in China, soil chemistry was largely confined to soil analysis. Extensive analytical data of complete mineral composition and weathering ratios of soil colloid were made. These data served valuable references for the classification of great soil groups.

A reflection on the progress of soil analysis reveals the following steps: gravimetric—volumetric—colorimetric—photoelectric (including flame emission method). The last one is practically a physical method. The determinations of soil phosphorus and potassium can match these steps very well. The test of soil pH is started from color comparison and later by glass electrode.

Investigations of reduction-oxidation process in paddy soils, absorption and desorption of cation ions by soil colloid are an important research topic of Chinese soil scientists.

The investigation of soil of variable charge is our outstanding accomplishment.

3. Owing to the rapid population increase, and the continuous decrease of arable land, the per capita cultivated area declined from 4 mu in 1949 to 2 mu today. Self-sufficient food production in China is largely dependent on the increase of crop yield per unit area. In this regard, application of chemical fertilizer plays an important role. The annual consumption of N in 1988 was 12 million tons. But the shortage of phosphatic fertilizers is very distinct, and the supply of potassium fertilizer is mainly dependent on imports from Canada and European countries. The exploitation of salt deposits in the Tarim Basin is expected to produce 0.2 million tons of KCl in 1990. China holds rich resources of phosphorite, but lacks sulphuric acid. We expect to have a rational fertilizer consumption ratio of  $N:P_2O_5:K_2O = 1:0.5:0.2$ , but it was only 1:0.26:0.07 in 1986.

4. Although agronomists recognize the importance of soil physical properties to crop growth, for a long time the determinations of soil physical properties were confined to only moisture, pore space, water holding capacity, expansibility and so on, and were usually made in laboratories from core samples. However, since 1978 we have paid much more attention to the study of soil physical properties.

At present, we have established field experimental plots in the loessial plain of the lower Yellow River, provided with automatic implements to record parameters of soil physical properties. Many modern instruments, such as pressure membrane instrument, neutron soil moisture probe, evaporation capacity sensor, Coulter multi-channel particle counter and others have been introduced in China.

We established a system of soil texture classification appropriate to our own conditions. In this system, soil textures are divided into three groups, sandy soil, loamy soil, and clay soil; they are then subdivided into eleven

textures. From extensive analytical data, we generalize the regularities of the distribution changes of soil particles. Soil particles appear more fine from western China to eastern China and from northern China to southern China.

5. Systematic study of soil mineralogy began in China in 1949. After extensive examinations of the clay mineral of soil samples collected from main soil groups, we divide the distribution of clay minerals into 11 regions. In the arid region of northwestern China, where the weathering process is very weak, hydrated micas and chlorite are the main ingredients. Large amounts of smectite are formed in the semi-arid region of the eastern part of Inner Mongolia. In the eastern part of loessial plateau also in the brown earths and drab soils of Shandong and Liaoning peninsulas, where advanced weathering takes place, vermiculite is predominant. In the red earth regions of southern China, the important clay minerals are kaolinite and iron oxides. In the lateritic red earth region, hydromicas are few. There exists large amounts of well crystallized kaolinite.

The distributions of clay minerals in rice paddy soil also form regional features. They are in consonance with the main soil types from which paddy soils are developed.

A large scale map showing the regional distribution of soil clay minerals in China has been compiled.

6. Soil organic matter is an important constituent of soil colloid. The content of organic carbon in agricultural soil usually ranges between 1 to 3 percent in the world. However, owing to the poor soil management, we have large areas of agricultural soils containing organic carbon much less than 1 percent.

The C/N ratios of agricultural soils maintain 10-14 without much difference in bio-climatic regions. This ratio appears narrow in deeper horizons of soil profile and is about 5 at the depth of 0.5 meter. The N/S ratio has been found to have a rather stable figure of about 7-8.

Soil humus is a decomposition product of organic matter. According to the late professor Kononova of USSR, soil humus is classified into fulvic acid, humic acid and humins. We still follow this classification system. However, our recent investigations find that the nitrogen-containing organic constituents formed under flooded conditions have marked difference from those formed under aerobic conditions. The effects of calcium carbonate and mineral constituents on the properties of soil humus are also investigated.

The transformation of plant residue to humus materials is accompanied with specific enzymes. In this regard, our studies have just begun.

7. The investigation of nitrogen fixation by nodule bacteria started in China in the 1930's. But systematic studies on nitrogen fixation by soybean, peanut, vetch and milk vetch only began in the 1950's. Inoculation

techniques of nodule bacteria seem successful. Extension work of nodule bacteria to arable fields was carried out smoothly. Soil microbiologists have contributed to the increase of crop yields.

Extensive field plots have revealed that application of phosphatic fertilizers to legume plants increases the available nitrogen supply in the soil and gives a better yield in succeeding crops.

Our studies on the transformation of inorganic nitrogen in soils mainly focus on nitrification and denitrification. The purposes of these works are for the economic use of nitrogenous fertilizer and for the prevention of pollution in drainage water.

8. Our studies on soil ecology are new. Investigations of soil ecology cover the following:

A. Agricultural ecology, including paddy field and dry field: The cycles of nutritive elements under different rotation systems are studied.

B. Ecology of steppe soils: Over-grazing destroys the ecology of steppe soils. Large areas of steppe soils have been turned into sandy wasteland in Inner Mongolia.

C. Ecology of forest soils: Investigations are made in the forest soils of the eastern-most regions of western China where insects and soil bacteria decompose the soil organic matter. The mineral elements, as decomposing products, are translocated in soil profile. Cycles of the movement of mineral elements in soil profile of forest soils have been studied.

### Survey of Guangdong Agricultural Investment

40060746A Guangdong NANFANG RIBAO in Chinese  
3 Sep 89 p 2

[Article by Lai Guoyang 6351 0748 2254: "County and Town Agricultural Investment Increases In First Half of Year; 15 Counties' Regulatory Situation Clarified; But Agricultural Development Funds and Measures To Increase Agricultural Funding Still Lack Adequate Implementation"]

[Text] Recently, the Guangdong socioeconomic survey brigade selected 15 counties (districts) for a survey of their agricultural funding investment situation.

County-level financial investment in agriculture basically has achieved the fourth article of the provincial government's requirements for this year, which is that "agricultural operating expenses and direct expenditures for agricultural production shall not be less than 12 to 15 percent of the general revenue expenditures for that year; or, taking this year as the base, shall show an annual increase of not less than 5 percent." During the first half of this year, the 15 counties' proportion of general expenditures that went for agriculture increased by 35.2 percent over the same period last year, which meant that the agricultural proportion of general expenditures increased by 11.2 percent, compared with 10.5 percent

for the first half of last year. Of this, four counties' proportion was in excess of 12 percent; of those under 12 percent, eight showed increases of less than 5 percent.

Each of these 15 counties selected a town (village) to be surveyed; in these 15, during the first half of the year, direct expenditures for agricultural production were up 52.2 percent compared to the same time period last year. The total volume of agricultural payments increased 50.9 percent. The segment of agricultural spending which showed the greatest rate of increase was planting, which reached 67.9 percent, raising last year's proportion of 45.4 percent to 50.5 percent.

However, there are still some problems with Guangdong's agricultural investment:

First, in building up agricultural funding, there has been considerably more talk than action. The provincial government decided that there should be agricultural development funds established beginning in 1989 to ensure that there will be a regular source of funds for agricultural investment. Today, the majority of counties have set up these funds, and have stipulated clearly the sources of these funds. However, several problems still exist in the actual implementation. For instance, while Shunde County took 1.5 million yuan from local funds for agricultural development in the town of Daliang in accordance with the initial stage of the town plan, other towns still have not taken any concrete funds.

Second, increasing agricultural funds call for some difficult measures. Due to tight money and controls on the scale of credit, and even though banking and credit departments have adopted various measures, funds for agriculture are still in short supply. In 11 of the 15 counties, 73.3 percent, the total amount of agricultural funds is less than it was at this time last year. In five of these counties, or one-third, the drop in funds was greater than 30 percent. A report from Huidong County showed that there is a major gap in the income from subsidiary agricultural products, with surpluses of food, fertilizer and agricultural chemicals, making fund turnover difficult. Agricultural funds recovered in the first half of the year were only 8.6 percent of what they were for the same time period last year.

Third, the peasants still lack enthusiasm for agricultural investment. For the first half of the year, the peasants' per capita income increased by 41.2 percent, but while direct cost-of-living expenditures increased by 34.3 percent, direct investments in farming, forestry, animal husbandry and fishing increased by only 28.4 percent.

### **Monopolized Management of Agricultural Production**

40060746B Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 14 Sep 89 p 2

[Article by Cui Ying 1508 4481, Liu Deyu 0491 1795 3768 and Zhou Zhenfeng 0719 2182 0023: "A Perspective on Monopolized Management of the Agricultural

Means of Production; a True Record of a Survey in Eight Provinces of Eastern and South-Central China"]

[Text] From mid-April till early July, reporter Fu Hua-dong [6384 5478 2639] traveled through provinces in eastern and south-central China, making a special investigation of how monopolized management of the agricultural means of production are being handled there. The impression gained was that each location has seen initial success in its operations, the agricultural market has been rectified and put in order, there have been some preliminary controls brought to bear on fake and inferior agricultural products, the peasants' morale is stable, and panic purchasing is being decreased. Every local government, every supply and marketing department is doing a good deal of work in these areas.

However, in the view of each locality, monopolized management has revealed some new problems, causing some anxiety. Many rural cadres and economic experts know that if these problems are not solved as soon as possible, it will be very difficult to make a success of monopolized management of the agricultural means of production.

### **The First Drawback: Too Many Chains of Management, Too Many Routes to Closing**

Since monopolized management, every type of agricultural means of production has been returned to exclusive management in supply and marketing bodies. Although this is helpful for unified management, this still limits the communication channels, increases the coordination links, impedes the circulation of the commodity, not only losing farming time, but also aggravates the tense supply situation, thereby causing skyrocketing prices.

Prior to monopolized management, chemical fertilizers, pesticides, agricultural models, and others, were for the most part sold by manufacturing plants directly to supply and marketing bodies at the rural level. Or, they were marketed directly to consumers by the plant which produced them, just one link in the chain. Since monopolized management, the plants must first sell to agricultural production companies, which then sell to basic level supply and marketing bodies, which greatly extends the turnover time, and increases costs. This past March, spring planting was so busy that some Hubei peasants were almost unable to buy even one jin of fertilizer, while fertilizer was piled mountain-high in some manufacturing plants. In one village near the city of Liao, in Shandong, the peasants reported that due to a lack of timeliness in supplying pesticides, 140 cotton-growing households were forced to share only 3.5 kg of pesticide, an average of two rows per household, which resulted in serious insect damage to the cotton.

Due to increased links in monopoly management, there was an increased shortage of sources, this year each locality's price rise margin for agricultural materials was absolutely astonishing. According to a survey by the Ministry of Agriculture, agricultural production materials in the first quarter of this year cost 34.7 percent

more than for the same period of time last year. In May, the cost of urea increased by 25 percent over the same time last year, and that of ammonium carbonate by 34.7 percent. Our reporter found that in the eight provinces of eastern and south-central China the cost of various agricultural expenses had risen an average of more than 20 percent over what it had been at the same time last year. The margin of price increases was so great that the general ability of peasants to make purchases dropped. At Changzhou, Jiangsu, agricultural production during the first quarter of the year was down 30 percent in volume from the same period last year, while in Wuxi it was down 26.6 percent. A survey of 150 rural households in Shandong showed that the rise in costs of the agricultural means of production had created a 1.3 percent decrease in the area land of grain planting and seedling.

### **The Second Drawback: Disputes Between Industry and Trade**

Due to a lack of appropriate measures, implementation of monopolized management has not gone smoothly between state and enterprise, with the relationship between producers, managers and consumers objectively turning into aggravated conflict, which has intensified the shortage in the supply of agricultural means of production.

The reporter's survey in Anhui showed that chemical fertilizers are priced at 260 to 280 yuan a ton when they leave the plant, with the selling price from monopolized management departments about 360 yuan. During the first quarter, Anhui's fertilizer enterprises showed losses of 60 percent, while of the province's more than 60 fertilizer plants, 37 did not conclude contracts with agricultural production departments due to the uncertainty of profits. Because there was no apparent gain for enterprises, many plants cut back greatly on their output, which caused monopolized management departments to fail in attaining their planned incomes. In Jiangsu, in which agricultural industries are better developed, some areas showed a major decrease in the scale of agricultural investment, with Changzhou showing a 26 percent decrease in the amount of fertilized land. Suzhou had an 11 percent decrease, and an even greater decrease in pesticides. Because manufacturing plants cut back their output, it was difficult to fulfill agricultural production plans, with pesticide plants in Nantong, Wujin and Danyang able to fulfill only 30 to 40 percent of their allotted plans, and Suzhou's plants only 60 percent.

Of the nation's 91 enterprises engaged in the production of plastic film for agricultural use after monopolized management was implemented, because agricultural production companies make their payments after the delivery of the merchandise, they created problems for the turnover of enterprises' investment funds. Because there were many linkages in monopolized management, currency flow was impeded, putting pressure on the plants. This caused 52 of these 91 enterprises to stop production, 21 to partially cease production, and only 18 were able to operate normally. These enterprises have

made a joint request that the Ministry of Light Industry improve the monopoly management policy.

### **The Third Drawback: The Worsened Trend of "Territorial Rivalry"**

After monopoly management was implemented, each locality formulated a policy restricting the amount of the agricultural means of production that could be moved out of that locality. In order to guarantee their profits, some places also restricted the amount that could be brought in from other locations. This created a situation in which shortages of agricultural means of production were unequal, blocking the normal channels of flow between provinces and between regions, and aggravating "territorial rivalry" in the provision of agricultural production means.

In our reporter's survey of eight provinces, pressures on monopolized management departments were most severe in those provinces where the output of agricultural means of production was greatest and the funds spent was large, creating great pressures on production enterprises and monopolized management departments. In the provinces where there was a shortage of the agricultural means of production, due to insufficient supply, the peasants were hurt badly by the rise in prices.

Prior to monopolized management, agricultural regions in south and north China for the most part adjusted their shortages in agricultural means of production by seasonal difference. But after the monopolized management was implemented, each region adopted a "close-door" policy, sealing themselves off from all channels of adjustment. Some major channels were blocked while the small ones were still open. Some "corrupt persons" also took advantage of the situation to stir up trouble, forcing up commodity prices, selling in large quantities, and entrapping the peasants. A survey of 150 peasant households in Shandong revealed that chemical fertilizer from channels which were not monopoly managed constituted 27.7 percent of total procurement volume, and plastic film for agricultural use, 62.7 percent.

The majority of China's agricultural production enterprises are distributed along the east coast and in the raw-material producing regions. The pesticide-producing regions are chiefly spread throughout Jiangsu, Zhejiang and Shanghai. Prior to monopolized management, there was great readjustment of the surplus and shortage in volume in the eastwestern region; but since the monopolized management was implemented, the governments of the areas where these enterprises were located stipulated that unless the state readjusted and allocated the amount to be produced, nothing was allowed to go outside of the province. In the meantime, the state-instituted plan of readjustment and allocation only met 20 percent of these enterprises' output. As a result, pesticides and fertilizers were in extremely short supply in the western and central provinces. There was a shortfall of about 3 million tons in Hunan's requirement of 5.18 million tons of fertilizer. In the past, this could



have been adjusted every year with transfers from the north or east, but this year each province was very obstructive, blocking the channels for bringing in goods, so that the supply of fertilizer for all provinces was extremely tight. There is no fertilizer plant in Shandong's grain-producing county of Dingtao; this year, although every possible means of organization was tried, there still was a more than 60 percent shortfall. In one village in Dingtao, the peasants collected funds from people as far as 200 li away to buy 8 tons of carbamide, which were intercepted on route by peasants from neighboring villages. Prior to monopolized management, 50 percent of the fertilizer in Anhui's Fengyang County was purchased from Shanxi; this year, in the entire county 30 percent of the fertilizer lacked a certain source. Agricultural investment departments in the county of Feixian found it extremely difficult to get supplies from organizations outside their area, but certain railway offices in north China batched four carloads of 50 tons of rice to do business, but the hard-pressed monopolized management departments had absolutely no way to accomplish this.

#### **The Fourth Drawback: Part of Monopolized Management Has Become "Monopolized Corruption"**

Monopolized management has not completely stopped unhealthy tendencies. Looked at the investigation from some locations, the trend to make profits has become more serious. Some locations have even turned making profits into "monopolized corruptions," while some have changed monopolized management into "monopolized profits."

From 1 March to 31 May, the State Commodity Bureau conducted a major investigation of agricultural investment prices. Nationally, more than 13,000 items were priced in violation of the law, bringing in some 86.84 million yuan illegally. Of these, 95 percent were for items under the pricing laws of economic management units.

Due to the emergence of contradictions in the supply and demand of agricultural investment, the peasants' benefits were also hurt at times. In addition, some manufacturing plants were not rigorous in their check mechanism; in production, they did shoddy work with inferior materials, then presenting this as quality work, so that large quantities of inferior goods entered the market. During the second quarter of this year, the National Fertilizer Quality Inspection Center inspected 93 products from 117 enterprises, and found that 40 percent of these were not up to standard. During the first quarter the National Pesticide Quality Inspection Center checked 118 products and found 57.3 percent were in violation of regulations and 35 types were ineffective. While conducting my investigation, I learned that the Yantai Department of Standards and Measures inspected the agricultural products of 115 distributor enterprises, selecting for inspection a total of 104 sample products, and found that 51.9 percent were substandard.

Economic experts know that the problems which have now emerged in monopolized management should be corrected from three aspects. One is to lead to competitive mechanisms, increase the monopolized management units, and under the guidance of the national plan, besides agricultural production departments, such units as those in agricultural machinery, manufacturing plants, and others can participate. The second is that such departments as industry, commerce, pricing, auditing and agriculture management take part in setting prices, supervising, so that monopolized management will be carried out in a sound and orderly manner. Third is to formulate appropriate measures for perfecting the monopolized management system.

#### **Jiangxi Fertilizer Supplies Improve**

*40060008D Nanchang JIANGXI RIBAO in Chinese  
25 Sep 89 p 1*

[Summary] By 31 August, the agricultural means of production system in Jiangxi Province had supplied 2,990,000 tons of chemical fertilizer to rural areas, a 13.3 percent increase over the same period in 1988. To alleviate fertilizer shortages, departments managing agricultural means of production in Jiangxi have signed foreign trade contracts to import 130,000 tons of urea, and will transfer in 920,000 tons of chemical fertilizer from other provinces.

#### **Fujian Aquatic Output**

*40060008C Beijing JINGJI CANKAO in Chinese  
2 Nov 89 p 2*

[Summary] From January to September, aquatic product output in Fujian Province totaled 813,800 tons, an 11.54 percent increase over the same period in 1988. Of this amount, the sea catch was 550,000 tons, a 13.77 percent increase.

#### **Heilongjiang Takes Measures To Improve Grassland**

*OW0311005089 Beijing XINHUA in English  
1505 GMT 2 Nov 89*

[Text] Harbin, November 2 (XINHUA)—Northeast Heilongjiang Province has improved 100,000 hectares of grassland this year, bringing the total area improved over the past 11 years to 733,000 hectares.

Heilongjiang Province has 7,518,000 hectares of grassland, the seventh largest area in China.

Excessive exploitation caused grass output to drop from 1,500 kilograms per hectare in the 1960s to 750 kilograms in the early 1980s.

Since 1979, Heilongjiang Province has spent 50 million yuan (13.5 million U.S. dollars) a year on the improvement and management of grassland, especially on the Songnen Plain (the plain between Songhua and Nenjiang Rivers). Various measures have been employed,

including aerial sowing, artificial placting and closing land to facilitate afforestation.

Wu Gengxin, a technician in the Heilongjiang Animal Husbandry Bureau, said about 20,000 hectares of seriously deteriorated grassland have been improved to the point where they now produce 2,500 kilograms per hectare each year.

He said an alkalinity-resistant grass has been planted on the 466,000 hectares of alkaline grassland. In the past three years the growth on nearly 10,000 hectares has reached half a meter in height.

Zhao Yuncheng, director of the animal husbandry bureau, said 1,333,000 hectares of grassland still need improving in Heilongjiang. If 133,000 hectares are improved every year, it will take at least 10 years to accomplish the task.

Investment in the development and management of the grassland, he said, represents only 4 percent of the total investment in agriculture. He said China, which has 400,000,000 hectares of grassland, should pay more attention to its development.

#### **Liaoning Plans To Use Coasts, Marine Resources**

*OW0910100589 Beijing XINHUA in English  
0917 GMT 9 Oct 89*

[Text] Shenyang, October 9 (XINHUA)—Northeast China's Liaoning Province has worked out a plan to make use of its shallow waters, coastal marshes and other marine resources.

Hao Yongzhi, a planning official, said that rich marine resources play an important role in the province's economic development and its opening to the outside world.

The province has 6.4 million ha of offshore waters, and 264,000 ha of shallow waters and marshes.

Now the province's annual trade volume in aquatic products has reached 40 million tons, nearly 20 times that of 40 years ago, when New China was founded. Last year, exports of aquatic products earned \$175 million—some 20 percent of the nation's foreign exchange earnings in this sector.

Liaoning has a coastline of 2,100 km and there are rich mineral, chemical, energy and other maritime resources in the area.

For example, in the area between northern Yellow Sea and the southern part of the Korean peninsula, large quantities of abalone, prawn and sea cucumber are produced.

The province has also decided to build a city specializing in the petrochemicals industry at the juncture of Liaodong and Bohai Bays, where there are rich oil and natural gas resources.

In addition, several harbors have been opened up in Liaoning's Dandong, Dalian, Yingkou and Jinzhou Cities. Another 20 harbors of different sizes are also expected to be set up along the coastline of the province in the near future.

#### **Zhejiang Improves Agricultural Production Supply**

*OW2510052589 Hangzhou Zhejiang Provincial Service  
in Mandarin 1000 GMT 8 Oct 89*

[Text] A reporter of this station has learned from the provincial meeting on rural work that this province has achieved relatively good results in handling agricultural means of production. These results may be summarized as follows:

1. The situation of supply of agricultural means of production has improved significantly and the quantities of supply have been increasing steadily. Price increases are obviously under control. The situation of short supply has been alleviated. The demands made by the provincial government for increasing sources of agricultural means of production, providing supplies in a prompt manner, setting reasonable prices, and rendering good services have been basically met. The rate of increase of prices of agricultural means of production has been reduced significantly as compared with last year. While the quantity of supply increases steadily, goods in stock are also increasing at the same pace.

2. The policy in supplying agricultural means of production has been implemented in a satisfactory manner. Chemical fertilizer, insecticides, and plastic sheets for agricultural use, which are linked to the production of grain, cotton, cocoons, and other major agricultural products, have been issued promptly and in full. Such long-standing unhealthy practices as issuing promissory notes for chemical fertilizer, setting unreasonable targets, distributing goods in an illicit manner and giving priority to relatives and friends have greatly diminished.

3. The circulation of agricultural means of production on the market has returned to normal. Handling of the same commodity by various units, selling and reselling of goods for profit, unwarranted price increases, and frequent occurrences of fake and poor quality chemical fertilizers and insecticides in the market have all been effectively stopped. At the same time, confusion in transactions and man-made tension and panic due to market price fluctuations have been eliminated. This has eased the peasants' mind in their demands.

The general guiding principle for handling agricultural means of production next year is to continue the present good practice, consolidate good results, further improve the various methods, provide the necessary accessories, achieve a breakthrough in improving services for customers in the purchase and use of agricultural means of production, and raise social benefits and enterprise economic results.

## Socialist Art, Literature Emphasized

### Bourgeois Liberalization Opposed

40050643A Beijing LIAOWANG [OUTLOOK] in  
*Chinese No 30, 24 Jul 89 pp 26-27*

[Article by Zhao Xun 6392 1416: "Let Socialist Thinking Take Over the Literary and Art Front"]

[Text] As Comrade Deng Xiaoping pointed out, at present we really need to "think calmly about the past as well as the future" in light of the realities of the Chinese literary and art front. We should also think about "the main lesson of the occurrence and spreading of this turbulence and riot and ways to eradicate factors that caused the turbulence," as Comrade Jiang Zemin pointed out. Here I will propound only one issue—whether or not socialist literature and art need to adhere to the leadership of the party.

"The nature of this incident is the antithesis between bourgeois liberalization and the four adherences," said Deng Xiaoping. The core of bourgeois liberalization is to negate the leadership of the party. Everyone knows that bourgeois liberalization is a time-honored phenomenon in the literary and art circle. The only difference is that this time it was more fully exposed. The CPC Central Committee was long aware of this phenomenon. It launched more than one antiliberalization movement, but none of them was carried through. Besides, every antiliberalization movement was followed by a surge of interest in liberalization. Later, the ideological trend of bourgeois liberalization spread to an unprecedented degree, preparing ideology and public opinion for this turbulence and riot.

An authority of the literary and art circle openly stated that literary and art departments not controlled by the party, such as acrobatics, music, and dance, are flourishing and have won many international rewards, whereas drama, movies, and literature are ... because there is too much control. Wu Zuguang [0702 4371 0342] also said: "The party should stop interfering with literature and art before it is too late." Spreading such remarks at home and abroad, he wants mainly to negate party leadership over literary and art work. They also quoted Comrade Deng Xiaoping's remark at the Fourth Congress of Literary and Art Workers: "Do not flagrantly interfere... as to what and how to write." But they forgot that Comrade Deng Xiaoping made this remark under the exact title of "Party Committees at All Levels Should Do a Good Job of Exercising Leadership Over Literary and Art Work." Whether or not we need the party leadership and how to exercise such leadership are two related but different issues. If we did not need party leadership, there would be no need at all for us to discuss how to do a good job in exercising that leadership.

Summing up the lessons of this incident, Comrade Deng Xiaoping said, "It is not that we have not talked about the four adherences, ideological and political work, anti-bourgeois liberalization, and anti-ideological pollution.

It is that we have been inconsistent, have not taken any action, and have talked very little about them." That was exactly what Comrade Zhao Ziyang wanted—little. His instruction was "three littles": little control, little interference, and little criticism. This means, in other words, that the party should give up leadership over literary and art work. If the proletariat does not occupy the ideological sphere, the bourgeoisie will. As far as the literary and art front is concerned, as Comrade Jiang Zemin estimated, some positions are no longer in the hands of the party and the people. Is it really true that Comrade Zhao Ziyang gave up control? Not at all. See how thorough his control was over the television show *The River Dies Young*. Showing it once was not enough, he wanted it to be shown twice. He even presented it personally to foreign guests and wanted to carry out discussions at home and abroad. He did all this simply because this film flattered Comrade Zhao Ziyang.

Those promoting bourgeois liberalization have negated not only party leadership in current literary and art work but also the history of party leadership in literature and art. I will cite only a few examples here: 1) This year is the 70th anniversary of the May 4th Movement, and many articles have correctly appraised this period of history. Comrade Mao Zedong also discussed this period of history, noting its achievements and deficiencies. But the basic point of argument is: Is the introduction of Marxism-Leninism a historical achievement or a mistake? The May 4th Movement brought in Marxism-Leninism and combined it with the reality of the Chinese revolution, thus making an ideological preparation for the founding of the Communist Party. This is exactly its undeniable achievement in the contemporary history of China. But those who negate it think that the May 4th Movement brought in the ideology of Marxism-Leninism but did not bring in the ideology of bourgeois democracy, causing "a break in culture," and that it carried forward the tradition of salvation but failed to develop the tradition of enlightenment during the period of "the dual variations of salvation and enlightenment." They think that we must make up for the lessons of the period of bourgeois democracy, thus negating the May 4th Movement and the history that followed, including founding the Communist Party and all revolutions led by the party. 2) Since its founding, the party has never given up leadership over the leftwing literary and art movement, which was considered a wing of the ideological construction. This was undeniable in the history of Chinese revolutionary literature and art. Recently, some people suddenly began to loudly oppose this period of history, denying all the creative achievements of Lu Xun and recognizing only the creative activities of Hu Shi, Xu Zhimo, and Liang Shiqiu. Is this simply prejudice and ignorance or do they have ulterior motives in this? 3) Shall we affirm or negate the historical significance of the speech on the rectification of Yan'an, the great impact it made in the liberated area and other parts of China, and the important achievements it scored in the literary and art movement? Shall we affirm part of its achievements, for example, only in the Yan'an and liberated areas, or in

other parts of the country as well? (Some people think that the propaganda speech in the rear area was ultraleftist.) How do we appraise and understand the Yanan rectification movement, which combined Marxism-Leninism with the reality of China and formed the guiding principle of the party—Mao Zedong Thought (including literary and art theory)? Shall it be considered as one of the four adherences? Shall we uphold or oppose it? We cannot avoid adopting a clear-cut stand on these issues. 4) This year is the 40th anniversary of the founding of the PRC. There are two exactly opposite opinions on the appraisal of literary and art achievements scored under the leadership of the party in the 40 years since the founding of the PRC. One basically affirms such achievements after pointing out some shortcomings. The other basically negates such achievements, but says that the situation made a turn for the better in recent years. But what the latter affirmed is exactly what the former wanted to criticize, and what the former affirmed is exactly what the latter wanted to negate. If this argument is not settled, party leadership will not know where to go in literary and art work. Other related disputes on literary and art history are nothing but some people who want to give prominence to the achievements of bourgeois ideology and writers in literary and art history and to offset and belittle the achievements and functions of the proletariat and people's writers so that they can start rewriting the contemporary history of China by rewriting literary and art history and prepare public opinion for the restoration of capitalism.

The party exercises its leadership over literary and art work not through individuals but through the implementation of its literary and art principles and policies. For many years the party has had a complete set of literary and art principles and policies, including the direction of serving the people and socialism, and such policies as letting a hundred flowers blossom and a hundred schools of thought contend, weeding out the old to bring forth the new, making the past serve the present and foreign things serve China. Years of practice have proved that these principles and policies are basically correct, but none of them was able to escape repeated criticism and vigorous resistance when they are being implemented.

For instance, the direction of serving the people and socialism requires that literature and art not be divorced from the people and socialist politics; and that they be responsible to the people and emphasize social effect. But some theorists consider this as vulgar sociology. They demand that "literature and art be taken off the belt of politics" and that literature and art should remain as literature and art without the attachment of any utilitarian views outside literature and art. We demand "social effect." They say that "the effect of demanding social effect is bad." Citing senior writers as examples, they said that these writers made brilliant achievements before they accepted the party's principles and that as soon as they accepted the party principles, their writing began "sliding downhill." They said that Lao She was such an example. In other words, the direction of

"double hundred" is unacceptable. Accepting it will cause one's creative work to decline. As soon as they accept the party's principles, accomplished great writers will accomplish nothing. If literature and art is not for the people and socialism, then it will be used for just about anything, like publicizing decadent bourgeois ideology, distorting socialist reality, making cynical remarks about current society, promoting sickening pornography that describes physical instincts, advocating abstract humanitarianism to criticize wars of justice, defiling our brave fighters of liberation army, advocating solipsism, and promoting nonheroic tendencies. Isn't this true?

The above various phenomena often emerged in the name of the "double hundred" policy. Those engaged in the liberalization like the "double hundred" policy because they can sell their illegal goods under this pretext and put a legal label on their work.

In their contention for one hundred schools of thought, we seldom hear the voice of Marxist and Leninist theory in literature and art, because Marxist and Leninist views on history and literary and art are all criticized as leftist vulgar sociology and dogmatism. Mao Zedong's theory of literature and art, in particular, has become the target of ridicule. As a result, wherever we go we can find articles negating the Marxist theory of reflection, articles denying that life is the source of creation, articles opposing writers establishing ties to the masses and getting deeply involved in life, articles denying that the world outlook plays a guiding role in the creative process, articles advocating "antirationality," and articles promoting abnormal psychology and the so-called updating of concepts and "enhancing modern ideology." Marxism-Leninism is much less popular than those long-outdated literary and art theories of the West in our country. It is rather strange, don't you think?

The practice of negating literary and art tradition has become fashionable. The nihilism of national literature and art has become a fad of today. While negating national literary and art tradition, some people flagrantly publicize bourgeois literary and art ideas and the stuff of the so-called school of new wave and different modernist schools and trends. It is not that nobody knows what is being publicized at those bookstands and video stores throughout urban and rural areas. It is that nobody wants to get involved, because we want "less control, interference, and criticism."

The key to implementing party leadership lies in the party's leadership over the literary and art contingent. We have a contingent of millions of people. But for a very long period of time, this contingent of ours lacked the leadership of the party and education in the ideology and policy of the party. Literary and art workers are supposed to carry out ideological education among the masses, but they do not even have proper education themselves. Our literary and art contingent is a lovely group organized personally by Premier Zhou and armed with Mao Zedong Thought. It is a contingent loyal to the

people and the party. If this contingent falls apart or goes bad in our hands, how do we justify our action to the party and the people?

It is true that literature and art needs rectification and reform, too. But how? I think that the production and reform of ideological products cannot copy exactly the system of material production. The results of its reform should be reflected in richer ideological substance and more profound social effect. It should not be judged by the standards of monetary value. Haven't you noticed that, in order to make money, our theatrical and publishing businesses and our creative and performing conditions have developed to the point that makes each of us worry?

In the new period, our literary and art work has indeed encountered many new difficulties and problems that we have never seen before. This is exactly why we need the party's leadership to help and assist in finding solutions to overcome difficulties and problems.

We often hear criticism, such as, whenever you express a slightly different view on the current phenomenon of literature and art, you will be immediately labeled as opposing the reform and opening up. On this point, I totally agree with Comrade Jiang Zeming's speech. He said: "The reform and open policy we are adhering to is a reform and open policy that adheres to socialist roads, the democratic dictatorship of the people, the leadership of the Communist Party, Marxism-Leninism, and Mao Zedong Thought. As a sharp contrast, the 'reform and open policy' upheld by those who stubbornly promote bourgeois liberalization is one designed to fulfill Western capitalism, give up the democratic dictatorship of the people, do away with the leadership of the Communist Party, and abandon Marxism-Leninism and Mao Zedong Thought. The central task of their 'reform and opening' is to realize capitalism. This is, of course, absolutely forbidden by the party and the people. A major mistake of Comrade Zhao Ziyang was separating the reform and opening up from the four basic principles and setting them against each other. In fact, he abandoned and gave up the four basic principles and instigated and encouraged the spreading of bourgeois liberalization, thus causing this turbulence and counterrevolutionary riot and bringing about great calamity to the party and the country. This woke us up with a negative example. We must always remember this profound lesson that was exchanged with blood." I think that these remarks are profound and unequivocal. They have clearly explained the relationship between the reform and open policy and the four adherences. As a part of socialist ideological progress, the progress of socialist literature and art should never for one moment forget that the only purpose of our reform and opening up is to promote the prosperity of socialist literature and art and to educate the people in socialism and patriotic spirit. When various trends of erroneous thoughts, especially the decadent ideology of Western bourgeoisie, keep pouring in and when problems revealed are

extremely serious, it is all the more necessary for us to keep a cool head and have a unified goal.

Our literary and art environment and work also need improvement and rectification. First of all we should rectify ideology and genuinely unify the literary and art ideas of comrades in the literary and art circle, especially party members in the literary and art circle, in accordance with the viewpoints of Comrade Deng Xiaoping's speech at the Fourth Plenary Session of the CPC Central Committee. We should let the party's leadership and socialist ideology take over the literary and art front.

### Diversity Within Socialist Ideology

40050643B Beijing LIAOWANG [OUTLOOK] in  
Chinese No 30, 24 Jul 89 pp 24-25

[Article by Zhang Jiong 1728 3518: "Develop and Promote the Prosperity of Socialist Literature and Art"]

[Text] At a historical moment when every sphere of China must conscientiously review the past and look forward to the future and, in view of the growing ideological trend and tendency toward bourgeois liberalization in recent years, how to develop and promote the prosperity of real socialist literature and art is particularly worth our profound consideration!

Since the beginning of the new period, under the guidance of the line, principles, and policies set forth by the 3d Plenary Session of the 11th CPC Central Committee, our literary and art work has scored great achievements and brought about unprecedented prosperity in literature and art. This is inseparable from the hard work of all literary and art workers. However, literary and art development in recent years cannot but make all people who are concerned with socialism worry immensely. Under the prosperous surface of large amounts of literary and art products, we can see "pornography" and "violent literature and art" becoming rampant as well as the tendency to depict sex and murders. In addition, we can also find literary works that advocate "separation from politics," "deviation from reality," and "weakening ideology." We can even find many literary works that advertise "play," works that are vulgar and common, and works that advocate Western bourgeois ideology and viewpoints against socialism, including decadent outlooks on life and the world. These books are circulated everywhere to harm readers and poison future generations. If you take a look at the multifarious bookstands in all areas, you cannot but ask with a deep sigh: "What is the difference between here and Hong Kong, Taipei, Tokyo, and New York?"

It is true that socialism needs reform and opening up. The ossified and closed socialist model of the past has given us enough hard times. Since the beginning of the 1980's, the wave of reform and opening up has swallowed all socialist countries and become a magnificent global historical phenomenon. The essence of this phenomenon is to strive to explore and search for ways to improve and perfect socialism, not to promote bourgeois

liberalization and change socialism into capitalism. It is not impossible for a serious error in this regard to spoil all socialist achievements. The line of one center and two basic points set forth by our party is correct because it can prevent the occurrence of such an error. However, Comrade Zhao Ziyang failed to resolutely implement the line of the central government in an all-round way and allowed the ideological trend and tendency of bourgeois liberalization to run rampant in all spheres, thus resulting in the serious student strike, turbulence, and counterrevolutionary riot in Beijing. The lesson is indeed profound and shocking!

Therefore, how to develop and promote the prosperity of real socialist literature and art in the field of literature and art during the reform and opening up is indeed an issue that needs to be conscientiously studied.

Undoubtedly our literature and art should continue to implement the policy of "letting a hundred flowers blossom and a hundred schools of thought contend." We should also continue to strive to "make the past serve the present and foreign things serve China" and to "weed through the old to bring forth the new." Since we are opening up in all directions to the world, we should also borrow and learn from the modern scientific achievements and outstanding literary and art works of the West. It is not advisable to return to a unified and closed statement of literature and art from a pluralistic and open one. But when we pursue pluralistic literature and art and "let a hundred flowers blossom and a hundred schools of thought contend," we must not forget that as a part of socialist ideological progress, Chinese literature and art must serve the general goal of consolidating and promoting socialist ideological progress. In other words, the subject materials, themes, forms, styles, and artistic methods of literature and art may and should be diversified; writers, artists, and literary and art theorists and critics may and should display their own creativity to engage in creation and writing in accordance with their artistic individuality and intellectual and intelligent standards. Nevertheless, they must also notice the difference between socialist literature and art and capitalist and feudal literature and art. While satisfying the rich and diversified aesthetic needs of the people, socialist literature and art must not in general ignore an inclination for socialist ideology or forget to provide healthy aesthetic ideals and interests for the people so that their realm of thought and spiritual values may be elevated to a higher plane and they will love socialism and its bright future instead of the opposite. Open literature and art and "letting a hundred flowers blossom and a hundred schools of thought contend" under no circumstances means making no distinction between good and bad, right and wrong, indiscriminately accepting everything, or even worshipping and mechanically transplanting and copying Western bourgeois literature and art. Instead, as with feudal culture and literature and art, we should "select the essence and discard the dross" and resolutely criticize and discard especially all ideas and concepts against socialism and literary and art tendencies that are

out of tune with the healthy, progressive aesthetic pursuit of Chinese people. When deciding what to keep and what to discard, we must never use the value standards of the Western capitalist world to replace our value standards of the socialist superiority.

In 1905, when making projections on future socialist literature and art, Lenin already pointed out, "Undoubtedly it is impossible to conduct mechanical equalization and standardization or make the minority subordinate to the majority in literary undertakings. Undoubtedly, it is imperative to guarantee in this undertaking individual creativity and a broad space for individual interests, thoughts, fantasies, forms, and content." At the same time, he also pointed out that socialist literature "will be free literature, because socialist ideology and sympathy for the working people, not greed and ambition, will attract group after group of new forces to the literary contingent. This will be free literature because it will not serve those rich ladies who eat all day or a few tens of thousands of high-class people who are bored stiff and worry about how fat they are." He said that the free literature will serve millions upon millions of working people who are the essence, strength, and future of the country. He said that this will be free literature that should enrich the highest achievements of human revolutionary thought with the experience and actual work of the socialist proletariat... ("Party's Organization and Publications"). These projections of Lenin undoubtedly have significance of principle to our construction of socialist literature and art. We must never allow the reoccurrence of ossification and prototyping in literary and art creation, the establishment of various "forbidden zones" to limit the creative space of writers and artists, or turning the policy of "letting a hundred flowers blossom and a hundred schools of thought contend" into the desert environment that resulted from the Great Cultural Revolution where "all flowers withered" and "only one flower blossomed." If we forget socialist ideology and sympathy for the working people, if we do not resolutely serve the people and socialism, and if we tend to rely on moneybags, the purchases of international bourgeois publishers and domestic book dealers, and vulgar and low tastes as did some literary and art works that emerged in recent years, how can we call such foul and messy prosperity the prosperity of socialist literature and art?

To change the literary and art situation and to develop and promote the prosperity of real socialist literature and art, we naturally need to unite the broad masses of comrades in the literary and art circle to carry out work in a conscientious and down-to-earth manner. The key is to create quality works and produce more and better works that are inclined to socialism and deeply reflect the people's struggle and the four socialist modernizations. Only when we create many quality works in various forms of arts can our socialist literature and art squeeze out those messy stuff, occupy the broad literary and art market of urban and rural areas, win over

millions of readers and audience, influence their ideological and cultural life, and bring about socialist ideological progress. Of course, quality works also need quality reviews, especially those reviews which contain sharp thinking and fluent language and can help readers adopt a deep understanding of the work and raise their aesthetic appreciation standards. We do not need reviews that are divorced from the masses, pretend to be deep and profound, use obscure language, and make readers totally confused and lost. Of course, with regard to literary and art planning and investment, concerned administrative and policymaking departments should exercise overall control and provide necessary financial and material support instead of giving the consumption market total control of the direction of literary and art creation, as happened in recent years.

In sum, as long as we review and recall painful experiences, correctly accept historical lessons, and advance more firmly in the direction of serving the people and socialism, I believe that, through the efforts of the broad masses of comrades in the literary and art circle, the socialist literature and art of China will develop more soundly and flourish more vigorously.

#### **'Economic Criminals' Surrender to Police**

90ON0089A Beijing FAZHI RIBAO in Chinese  
20 Sep 89 p 1

[Article by Xing Min 0438 3046: "In the 30 Days Since Issuance of the 'Announcement' by the Supreme People's Court and the Supreme People's Procuratorate 5,674 Persons Have Given Themselves Up"]

[Text] Beijing, 19 September—A number of economic criminals, awed by the power and influence of the "Announcement" issued jointly by the Supreme People's Court and the Supreme People's Procuratorate, have voluntarily surrendered to the police. According to the latest statistics, in the 1 month from 15 August to 15 September, 5,674 criminals throughout China went to procuratorial organs, where they voluntarily surrendered and paid 38 million yuan in renminbi in compensation for illicit money and bribes. Among them were 189 cadres at the county department level and 5 cadres at the prefectural bureau level.

According to a joint news conference held by the Supreme People's Court and the Supreme People's Procuratorate, at present the provinces in which procuratorial organs have accepted and heard fairly many cases of people who have surrendered voluntarily to the police are Sichuan, Guangdong, Hunan, Jiangsu, Shandong, Hebei, and Hubei.

Deputy Procurator General Zhang Siqing [1728 1835 0615] briefed reporters on the "three manys" characteristic that has recently appeared among the people who have surrendered voluntarily to the police: First, there are many bribe-takers—about half the people who have surrendered to the police. Take Fujian Province, for example. Of 159 persons who surrendered to the police,

100 were bribe-takers. Second, many of those who surrendered were from the same unit. According to some local statistics, of the people who surrendered to the police, 40 percent were cases with two or more persons who belonged to the same unit. There are only 13 staff and workers in the foreign trade company of Dongtou County, Zhejiang Province, and 7 of them voluntarily surrendered to the county procuratorate, disclosing facts about the crimes of corruption and bribe-taking by the company's manager. Third, many of those who surrendered brought with them illicit money and stolen goods. The great majority of them returned all of the illicit money and stolen goods, and some who temporarily could not return all of the illicit money and stolen goods said they would do so in the near future.

At the news conference, Lin Zhun [2651 0402], president of the Supreme People's Court, said that the people's courts would carry out the "Announcement" to the letter, treating leniently those cases that should be treated leniently, and treating strictly those cases that should be treated strictly; and that all persons who have committed crimes of corruption and bribe-taking must, within the next 42 days, surrender to the police as soon as possible, because if they do not they will "eat their own bitter fruit."

#### **Problems in Prison Guard Work Aired**

90ON0089B Beijing RENMIN GONGAN BAO in Chinese  
29 Sep 89 p 3

[Article compiled by the Legal Department of RENMIN GONGAN BAO: "Problems Facing Prison Guard Work (Summary)"]

[Text] At the first national symposium on prison guard work, during the process of collecting theses, about 10 drafts on this selected topic were collected, and the remaining drafts had parts in them worthy of recommendation. Here, we have selected four drafts and summed them up in one article for the reader's convenience.

Comrade Zhou Taisheng [6650 3141 3932], of the Prison Guard Office in the Beilin subbureau of the Xian City Public Security Bureau, thinks that the biggest problem facing prison guard work is the lack of a prison guard contingent that possesses new concepts and is up to the mark in work.

First of all, there have been no breakthroughs in the concepts of prison guard cadres, and their political and professional levels are not high.

A prison society is composed of shady characters of all types and kinds, and what appears before the prison guard cadres is a complex social colony. There are a wide variety of many strange prisoners. Some have given up all hope, some are trouble makers, some plot to escape, some want to involve the prison guard cadres in evil-doing, and so on and so forth. This situation demands that our prison guard cadres, as their standard, make



tough, iron-fisted measures to strictly restrain the prisoners' behavior, and also, through patient and painstaking ideological work, make them give up their bad ideas. They must adroitly guide action according to circumstances, which is not an easy thing to do. Without a firm stand, abundant experience, and extensive knowledge, it is impossible to do this work well. And the present situation shows that we are very far from meeting this demand.

Next, the mental balance of cadres in prison guard offices has changed.

For a long time, there has been a bias in the public security organs, namely, the idea that prison guard work is simple: "First, look after; second, guard; and third, escort." No care is taken to select outstanding cadres to fill the posts; on the contrary, some cadres whose work in ordinary times is not good and who are even being punished are transferred to prison guard departments. As time passes, the view is gradually formed that there is no future in prison guard work. Because of this view the self-esteem of the prison guard people's police has been greatly damaged. Just think, if their morale is unstable, how can they do good prison guard work?

Finally, there is a lack of political treatment and policies.

There are many opportunities for incurring punishment, but there are few opportunities to join the party and be promoted to cadre or to receive awards for meritorious service. In addition, there are inherent biases and views in society that cause some cadres to while away the whole day, like the Buddhist priest who tolls his bell day after day, not seeking to make achievements but seeking only to make no mistakes.

Prison guard work not only is extremely hard but also is uninteresting and monotonous. Besides working 8 hours a day, a guard on night duty is not allowed to rest his eyes for a moment. He has no time to attend to family matters, and he is devoid of social contacts. A prison guard office is far from being on a par with a public security organ or other department. It is not given any preferential treatment, and it is really difficult to arouse the enthusiasm of prison guards, a situation that is bound to adversely affect prison guard work.

The above-mentioned three reasons show that many problems of the main body of prison guards—the prison guard people's police—are now in urgent need of solution, and also that they are longstanding, big, and difficult problems.

A manuscript from the Fourth Section of the Haixi Autonomous Prefecture Public Security Department in Qinghai Province points out that the biggest problem now facing the work of a prison guard office is how to ensure its security.

A look at present circumstances shows that our public security faces a grim situation. There has been a big rise in the number of serious and exceptionally serious

criminal cases and the number of criminals lawfully arrested and imprisoned has increased, thereby adding to the workload of a prison guard office. The majority of the criminals locked up have a very strong antisocial psychology and revenge psychology. To evade the law's punishment, some of them make a special study of how to resist prison supervision and interrogation, and look by all ways and means for an opportunity to escape. This causes major problems for the security of a prison guard office.

Looking at the leadership situation, we see that the leaders in charge of this work have not truly paid, in the ideological aspect, a high degree of attention to prison guard work. They do not have an adequate understanding of, and do not pay attention to, the changes in the status and education of imprisoned criminals and the difficulty of prison guard work. They think that prison guard work is "second line," and, provided the people who are locked up do not escape or die, everything is fine. Thus, they do not take seriously allocations for prison guard work. In the long-term view, this will cause a hidden danger to arise in prison guard work.

Looking at the situation of prison guard cadres, we see that the majority of them do not work contentedly. They think that the prison guard people's police are inferior to other people's police units and they always want to be transferred out of the prison guard office. This causes some comrades to not study and sum up their work conscientiously, and when they encounter a problem they do not know how they should tackle it; therefore, flaws often appear in their work, causing mishaps. The security of the prison guard office is the chief problem. Of course, the solution to this problem covers a very broad area.

In a manuscript written by Comrade Wang Changsong [3769 7022 2646], chief of the Pretrial Office of the Hubei Provincial Public Security Department, he concludes: The biggest problem now in prison guard work is the difficulty in disciplining and educating prisoners.

First of all, looking at the situation of the locked-up criminals, we see that changes have occurred in their age, status, psychology, and education. Their ages are universally lower. There has been a big rise in the proportion of teenage criminals, and they do not submit to discipline and education. Their status has become complex, with there being more recidivists, hardened criminals, gangsters, and "smart" criminals. These criminals are naturally difficult to discipline and educate; among them the phenomena of riots, escapes, uprisings, and the passing on of criminal methods are serious. Psychologically, they often take an indifferent attitude, and some of them put the responsibility for their offense on society and do not admit their guilt. This makes the work of discipline and education difficult.

Next, looking at the situation with regard to the cadres who do the work of discipline and education, we see that that they are unsuitable in two respects. First, the

number of cadres who do the work of discipline and education and the tasks they undertake are not in a direct ratio. In recent years, more and more criminals have been taken into custody by prison guard offices, but the number of prison guard people's police has not increased. There is not enough manpower, and most of the guards are too busy coping, and can only discipline but not educate. Second, the quality of the cadres and police is unsuitable for the demands of prison guard work. Among the prison guard people's police, many are getting old, are frail and sickly, and have little education. How can they be suitable for today's increasingly complex work of discipline and education? Even less can we talk about them handling knotty problems of a breakthrough nature.

Third, the influence of family and social factors also increases the difficulty of the work of discipline and education. Some heads of family blame society for the crimes committed by their children, blaming others and talking about how good their children once were, and so forth. They do not positively guide their sons and daughters to take the correct path, but, on the contrary, gain their ends by pull, seek connections, go through the back door. This is detrimental to the initiation of the work of discipline and education, and society's bias also makes some criminals write themselves off as hopeless and act recklessly, so that it is difficult to arouse their idealism.

It is thus obvious that the most difficult work is to discipline and educate criminals well. Thus, it should also be regarded as the biggest problem.

In his manuscript, Comrade Qi Liquan [7871 7787 3123], of the Prison Guard Office in the Linfan Public Security Bureau of Shanxi Province, concluded: The party's incorrect work style directly influences the normal operation of prison guard work, and this is now a difficult problem that urgently awaits solution.

In recent years, following the inroads and disruptions of unhealthy tendencies in society, this problem has been reflected everywhere in the position of prestige of the organs of the people's democratic dictatorship, which have been seriously polluted, the main manifestations being:

1. A decision is made to discipline someone through labor. Often the prison guard office has not yet received a notice to this effect before the offender's family members come to the office and demand to see him. It is even worse when a decision is made to discipline someone through labor, and after a few days the prison guard office is notified that the sentence was carried out somewhere else and the office is to release the offender immediately. Why release him immediately and why change the decision? Do these things completely meet the conditions for carrying out the decision outside the office? This affords food for thought! Although there are not many instances of this phenomenon, like a corrosive, it seriously affects the fighting capacity of the cadres and policemen of the prison guard office, and thus makes the work of a prison guard more and more difficult to do.

2. There are demands for illegal visits and sending things. Some people even flaunt the banner of so-and-so or pretend to be a relative of a high-level so-and-so, and with an imposing air seek out the office chief or the disciplining cadre in order to get permission to make a visit. Some people, even through the opportunity of a lawyer's visit to a criminal, make an illegal visit, so that there is the possibility of the visitor and the prisoner acting in collusion to make each other's confession tally and to leak secrets and pass on information.

3. Some cadres and policemen, to differing degrees, cause problems. There are fairly many circumstances in which they relax principles, and some of them violate law and discipline. This phenomenon is one big hidden danger in prison guard work, and it is also a problem in this work that is fairly difficult to eradicate.

Wang Xiaoli [3769 2556 7812], of the Heihe City Public Security Bureau in Heilongjiang Province, and Gao Zhoutang [7559 6650 1016], of the Baoji City Public Security Bureau, and the Pretrial Section and other units and comrades of the Baoji Public Security Bureau in Shaanxi Province, also said that the biggest problems in prison guard work now are the problem of the extended imprisonment of criminals, which is hard to solve, and the problem of it being impossible in prison to discipline and educate persons with nervous disorders, which has led to serious consequences. Because of length restrictions, the articles presenting these individual views were not selected.

**Brief Background of 17 Generals**

40050641A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 202, 16 Jul 89 pp 94-95

[Article by Ch'en Huei-Yuen 7115 1798 6678: "Brief Background on Seventeen Chinese Communist Generals"]

[Text] Name—Hong Xuezhai [3163 1331 2535]

Age—76

Birthplace—Anhui Province, Jinzhai

Current position—Deputy secretary general, Central Military Commission

Past positions—Chief of staff, 3d Division, New 4th Army

Commander, 43d Army, 4th Field Army

Chief of staff, 15th Army Group

Commander, Logistics Department, Volunteer Army

Deputy commander, then commander, General Logistics Department

Background—Lin Biao's 4th Field Army

Name—Liu Huaqing [0491 5478 3237]

Age—73

Birthplace—Hubei Province, Dawu

Current positions—Deputy secretary general, Central Military Commission

Member, Central Advisory Commission

Past positions—Chief, Propaganda and Education Section, 129th Division, 8th Route Army

Deputy political commissar, Sixth Sub-District, Hebei-Henan-Shandong Border Military Region

Director, Political Department, 11th Army, 2d Field Army

Deputy chief of staff, Navy

Deputy chief of staff, Army

Commander, Navy

Background—Deng Xiaoping's 2d Field Army

Name—Qin Jiwei [4440 1015 0251]

Age—76

Birthplace—Hubei Province, Huangang

Current positions—State Councilor

Minister of Defense

Member, Politburo

Central Military Commission

Past positions—Deputy brigade commander, 129th Division, 8th Route Army

Commander, Taihang Military District

Commander, 15th Army, 2d Field Army

Commander, Kunming, Chengdu, Beijing Military Regions

First political commissar, Beijing Military Region

Background—Deng Xiaoping's 2d Field Army

Name—Chi Haotian [6688 3185 3944]

Age—60

Birthplace—Shandong Province, Zhaoyuan

Current positions—Central Military Commission

General chief of staff

Past positions—Political commissar, "1st Jinan Regiment," 27th Army, 3d Field Army

Political commissar, 27th Army

Deputy political commissar, Beijing Military Region

Assistant editor in chief, RENMIN RIBAO

Deputy general chief of staff

Political commissar and chief of staff, Jinan Military Region

Background—former political commissar, 27th Army

Name—Yang Baibing [2799 4101 0365]

Age—68

Birthplace—Sichuan Province, Tongnan

Current positions—Central Military Commission, director, General Political Department

Past positions—Deputy political commissar and political commissar, Beijing Military Region

Background—younger brother of Yang Shangkun

Name—Zhao Nanqi [6392 0598 6386]

Age—62

Birthplace—Jilin Province, Yongji

Current positions—Central Military Commission

Commander, General Logistics Department

Past positions—First political commissar, Military Sub-District, Yen'an Border Area

Political commissar, Jilin Provincial Military District

Communist Party secretary, Jilin Province

Deputy commander and deputy political commissar, General Logistics Department

member, Central Committee

Background—Member of a national minority

Name—Xu Xin [1776 0207]

Age—68

Birthplace—Hebei Province, Lingshou

Current position—Deputy general chief of staff

Past positions—Commander, 33d Regiment, Sixth Sub-District, Central Hebei Military Region

Division commander, deputy commander, then commander, North China Field Army Military Area

Chief of staff, assistant general chief of staff, and general chief of staff, Beijing Military Region

Background—Nie Rongzhen's Military Commission

Name—Guo Linxiang [6753 2651 4382]

Age—75

Birthplace—Jiangxi Province, Yongfeng

Current positions—Member, Standing Committee, Central Disciplinary Inspection Commission

Deputy director, General Political Department

Secretary, Central Military Commission's Disciplinary Inspection Committee

Past positions—Director, Political Department, Sixth Sub-District, Taihang Military Region, 8th Route Army

Deputy political commissar, 61st Army, 18th Army Group, North China Military Area

Deputy political commissar, North Sichuan Military Region

Political commissar, Chengdu, Xinjiang, and Nanjing Military Regions

Background—Deng Xiaoping's 2d Field Army

Name—You Taizhong [1429 1132 1813]

Age—71

Birthplace—Henan Province, Guangshan

Current positions—Second secretary, Central Military Commission's Disciplinary Inspection Committee

Member, Central Advisory Commission

Past positions—Company, Battalion, then Regimental commander, 129th Regiment, 8th Route Army

Division commander, then general commander, 12th Army, 2d Field Army

Commander for the Military Regions of Inner Mongolia, Chengdu, and Guangzhou

First party secretary, Inner Mongolia Autonomous Region

Background—Deng Xiaoping's 2d Field Army

Name—Wang Chenghan [3769 6134 3352]

Age—72

Birthplace—Hubei Province, Huangang

Current positions—Political commissar, Military Science Academy

Member, Central Advisory Commission

Past positions—Regimental commander, Taihang Military Region

Division commander, 18th Army Group, North China Military Area

Commander, Suining Military Sub-District, North Sichuan Military Region

Deputy commander, Tibetan Military Region

Deputy commander, then commander, Chengdu Military Region

Background—Deng Xiaoping's 2d Field Army

Name—Zhang Zhen [1728 7201]

Age—75

Birthplace—Hunan Province, Pingjiang

Current positions—Director, National Defense University

Member, Central Advisory Commission

Past positions—Chief of staff, 4th Division, New 4th Army

Chief of staff, 3d Field Army

Director, Military Academy

Deputy commander, commander, then deputy general chief of staff, General Logistics Department

Background—Old Red Army

New 4th Army

Name—Li Desheng [2621 1795 0524]

Age—73

Birthplace—Henan Province, Xinxiang

Current positions—Political commissar, National Defense University

Member, Standing Committee

Member, Central Advisory Commission

Past positions—Platoon, Company, then Battalion commander, 129th Division, 8th Route Army

Division, then Army commander, 12th Army, 2d Field Army

Director, General Political Department

Commander, Shenyang Military Region

Background—Deng Xiaoping's 2d Field Army

Name—Liu Zhenhua [0491 2182 5478]

Age—68

Birthplace—Shandong Province, Taian

Current position—Political commissar, Beijing Military Region

Past positions—Battalion political instructor, Shandong Column

Director, Political Department, 7th Division, 3d Column, Northeast Military Area

Political commissar, Shenyang Military Region

Deputy foreign minister

Political commissar, Shenyang Military Region

Background—Lin Biao's 4th Field Army

Name—Xiang Shouzhi [0686 1343 1807]

Age—70

Birthplace—Sichuan Province, Xuanhan

Current positions—Commander, Nanjing Military Region

Member, Central Advisory Commission

Past positions—Company, Battalion, then Regimental commander, 129th Division, 8th Route Army

44th Division commander, 15th Army, 2d Field Army

Deputy commander of unidentified artillery unit

Commander of 2d Artillery Corps

Commander, Nanjing Military Region

Background—Deng Xiaoping's 2d Field Army

Name—Wan Haifeng [8001 3189 1496]

Age—69

Birthplace—Hubei Province, Huangang

Current positions—Political commissar, Chengdu Military Region

Member, Central Advisory Commission

Past positions—Army, Division, then Corps political commissar of an unidentified Army in the North China Military Area

Deputy political commissar, Beijing Military Region

Deputy political commissar, Chengdu Military Region

Background—Deng Xiaoping's 2d Field Army

Name—Li Yaowen [2621 5069 2429]

Age—71

Birthplace—Shandong Province, Rongcheng

Current positions—Political commissar, Navy

Member, Central Advisory Commission

Past positions—Deputy director, Brigade Political Department, Shandong Column

Director, Political Department, 26th Army, 3d Field Army

Deputy political commissar, Jinan Military Region

Deputy foreign minister

Political commissar, National Defense Science, Technology, and Industry Commission

Background—3d Field Army

Name—Wang Hai [3769 3189]

Age—63

Birthplace—Shandong Province, Weihai

Current position—Commander, Air Force

Past positions—Battalion, Regiment, then Division commander, Air Force 3d Division

Head of unidentified department under the Air Force Military Training Department

Deputy commander, Air Force, Canton Military Region

Deputy commander, Air Force

Background—Korean war hero

## EAST REGION

**Jiangxi Province Implements Scientific, Democratic Decisionmaking Policy****Advisory Body Includes Experts**

40050642A Beijing LIAOWANG [OUTLOOK] in  
*Chinese No 29, 17 Jul 89 pp 8-9*

[Article by Wu Guanzheng 0702 1351 2973, governor, Jiangxi Province: "Probing for a Scientific and Democratic Decisionmaking Process Through Practice"]

[Text] In the wake of reform and opening up and the progress of the four modernizations, we are facing new situations and new problems every day. To the governments at all levels, this not only means that there are many more decisions to be made, it also means that they are more difficult decisions. Because it is important to make the correct decisions, it is vital that we have a scientific decisionmaking process. So, how to make sure that the government's decisionmaking is scientific has also become a major issue confronting governments at all levels.

In recent years, the Jiangxi provincial government has tried very hard to let the "think tank," which is made up of experts from different industries and trades as well as scholars, to play a role in the government's decision-making process. For example, the experts and scholars are delegated to inspect, analyze, and study systematically the crisscrossing, complicated economic social phenomena; it is stipulated that prior to making a major decision, there must be feasibility studies, and decisions are made only with sufficient proof of workability and, generally, at least two programs must be formulated to allow comparisons. To this end, Jiangxi Province has accomplished the following:

We have set up a high-level decisionmaking and consultative organ, staffed by well-known experts and scholars on a part-time basis, to help make decisions and give advice and deal with the major issues under the leadership of the provincial government. At the end of 1986, the provincial people's government selected a total of 93 experts and practitioners from different fields to form the Jiangxi Provincial Government Decisionmaking and Consultative Commission. It is made up of experts and scholars from the natural sciences and social sciences fields as well as government workers with practical experience. The commission is divided into several specialized groups according to the expertise of the members. It gives the provincial government advice and makes suggestions concerning the province's system reform, economic, technological, and social development strategies, development plans, major projects, technical policies, and intellectual development. The provincial government has decided that in the future, prior to making any major decisions, the commission will be consulted first, and the provincial government and leaders of the departments concerned should sincerely seek the advice of the commission.

We revitalized Jiangxi and promoted the democratic decisionmaking process. We not only invited noted experts and scholars to participate in the decisionmaking and consultative process, we also mobilized the people of the whole province to offer their ideas and proposals. Last year, we launched a "longzhongdui" [7127 0022 7130] drive within the province with the revitalization of Jiangxi as its theme. I represented the provincial party committee and the provincial government and put the proposal before the province's experts, scholars, and veteran cadres, hoping that they would contribute to this drive. In 1 year, more than 580 modern-day "Zhuge Liangs" have sent in 527 pieces of articles on longzhongdui and offered many very valuable measures and suggestions for the revitalization of Jiangxi.

We value and continue to give play to the intelligence and wisdom of the old comrades and veteran cadres. This is another measure we have implemented since adoption of the democratic and scientific decision-making process. Old comrades and veteran cadres are experienced and better decisionmakers. They are our national treasure. We are determined to encourage and mobilize them to make helpful suggestions to the best of their ability to help the government make decisions. Whenever we try to tackle a major issue or make a major decision, we always listen to the old comrades and veteran cadres and ask them to take the helm and guard the pass—ask for their guidance.

In recent years, Jiangxi's provincial organizations have made major decisions, but always with the participation of the experts, scholars, and veteran cadres.

First, last year, China began to implement the coastal development strategy. Jiangxi is adjacent to the coastal provinces and is facing new pressures, challenges, and hopes. What should we do? What policies should we adopt? Upon analyzing the economic situation and industrial organization at home and abroad and along the coast and in the interior, many experts, scholars, and veteran cadres put before the provincial party committee and provincial government the plan to "take the initiative to offer support, take positive steps to keep up with development, and prepare to take over some tasks." Immediately, the provincial government printed and distributed the proposal to all delegates of the province's economic work conference for discussion. Everybody felt that Jiangxi's only solution is to seize the opportunity and promptly turn the shock wave generated by the coastal economic development into a driving force behind Jiangxi's economic development; otherwise, Jiangxi will fall further behind the others and will become even more backward. After thorough discussion and study and soliciting many opinions, we adopted the "six-character general policy" of "support, keep up, and take over." Support means banishing the close-minded idea of "our water irrigating someone else's farm"—worrying about benefiting somebody else. It means taking the initiative to help the coastal region get into the international market and willingly play a supporting role in the coastal region's export-oriented economy. Keep

up means that it is our prediction that the coastal region's conversion to an export-oriented economy is only the first of many steps as the nation's economy eventually turn toward the world; there will be second and third steps, and, because we are adjacent to the coastal region, we must keep up in terms of reform and opening up. Take over means that, as the coastal economy converts to the export-oriented economy, some industries and some markets will be relegated to the interior provinces, and although the industrial structures of most provinces and cities are very similar today, it takes time to move the industries, and, therefore, as we make preparations to take over the industries, we must also prepare ourselves to take over the large market given up by the coastal region.

Second, in the latter part of last year, China's economic climate and economic order was grim and chaotic. One of the reasons was that the nation's agriculture had stalled for the last several years in a row. Some of Jiangxi's old comrades, experts, scholars, and practitioners analyzed the situation and decided that the development of the province's productive forces was facing two major conflicts: One, the conflict during the transition from the old system to the new; two, the conflict between the development of the coastal and the interior provinces. To be able to deal with these conflicts properly, accelerate the transition process between the old and the new, cater to the needs of the coastal development strategy, and implement the general policy of "support, keep up, and take over" will, to a large extent, depend on the pace of Jiangxi's own rural economic development. Therefore, it was suggested that we gather strength from all quarters and spend the next 5 to 7 years waging a general war on agricultural development to promote the industrialization of the province's agriculture and raise the living standard of families from subsistence to the comfortable level as soon as possible. The provincial party committee and provincial government carefully studied this proposal and felt that it has a reliable basis, that it extracts and learns from foreign experiences, that it suits China's reform and the changing market and also gives expression to Jiangxi's unique characteristics; so, they accepted the proposal and promptly organized a group of people to formulate the specific steps and the goals for waging the general war on agricultural development and they mobilized the people throughout the province to serve in this war.

Third, we established the Ganzhou Prefecture Restructuring of the Economic System Experimental Zone. This decision was also the result of the hard work of many experts, scholars, and old comrades. Ganzhou Prefecture faces Guangdong and Fujian, and it is a relatively poor and backward region. How should it go about developing its economy? To answer this question, we turned to all comrades concerned with this issue, including experts and scholars, and step by step we came to the following conclusion: Ganzhou's geographic location is rather unique, and with regard to its future development, we must depend internally on more preferential, flexible

policies to start up and, externally, we must implement the policy of "opening up to counter other areas' opening up and enlivening the economy to counter other areas' enlivened economy." It must throw open its doors and windows; it must not close its borders; it must take positive steps to open up to the markets of the SEZ's. This not only will support and promote the coastal development but also will give impetus to the region's own development as well as the province's growth; otherwise, the gap between Jiangxi and its fraternal provinces will only widen, and it will be left behind by the coastal provinces. Understanding this, what steps should be taken? Upon hearing suggestions from all sides, and without violating the spirit of the central authorities' policies, the provincial party committee and provincial government made the decision to set up the Ganzhou Prefecture Restructuring of the Economic System Experimental Zone and gave it expanded jurisdiction over economic management and other areas. This year China is carrying out its rectification and improvement tasks. Again, we invited experts and scholars to follow up on the analyses and studies, and the conclusion is that the Ganzhou Prefecture Restructuring of the Economic System Experimental Zone is symbiotic with the coastal economic development strategy. We must maintain it and cannot take back the power already devolved.

Finally, whenever there is dispute over a construction project, the government and the department in charge no longer make a decision in haste. They always gather the experts to carefully discuss the issue and prepared several programs, the best of which will be chosen. For instance, last year, in order to meet the energy needs for developing an old liberated area in Jiangxi, a hydroelectric power station in Jinggangshan was proposed. This proposal triggered heated disputes, because it would have an adverse ecological and environmental impact. We did not approve the program, but was there a better proposal? We gathered the experts and scholars again and asked them to come up with their own ideas and do more studies. They visited Jinggangshan several times for on-the-spot inspections and finally came up with three programs, out of which we were able to choose one that was feasible and which would not have serious environmental impact (and protected a huge piece of virgin forest.)

Furthermore, we regularly invite expert and scholars in all fields to talk about the latest news from the coastal areas, Hainan, the SEZ's, and overseas in order to serve as references for future decisions. In working out Jiangxi's mid- to long-term development plans, we also gathered experts and scholars to make a thorough study on how to give expression to Jiangxi's characteristic as a major agricultural province.

In recent years, Jiangxi has made preliminary probes into the democratic and scientific decisionmaking process. We have much more work to do, but the following are some superficial understandings:

Democratization of decisionmaking is the precursor to scientific decisionmaking. It is an important part and a characteristic of democratic government. To amplify democracy in the decisionmaking process and let the masses and the experts and scholars participate in the process is an advanced form of democracy. Undemocratic decisionmaking does not encourage free thinking and free airing of views and is not conducive to raising the people's democratic consciousness and developing their collective wisdom. Letting the people, especially the experts and scholars, take part in the government and political affairs and democratizing the decisionmaking process make that process better understood and demystify it for the masses. At the same time, it brings the leaders' work into the open so that the masses, who are the masters of this country, can understand comprehensively and thoroughly the tasks of the leaders and the government. It closes the psychological gap and the real distance between the people and the government and enhances the government's prestige. Moreover, because the people, the experts, and the scholars are personally taking part in decisionmaking, they tend to be more serious and more conscientious about implementing those decisions, and, as a result, the government's goals are more likely to be achieved.

The democratization of the decisionmaking process has resulted in fewer erroneous decisions and in better decisions. For a long time, unscientific methods and ideologies were a serious problem in our government's decisionmaking process. In recent years, we began to change the old ways of making decisions: All important decisions have to go through the decisionmaking and consultative organ, which studies the technical and economic aspects and conducts feasibility studies. Proposed programs proved to have little micro- or macroeconomic value after thorough scientific study will not be put into effect or will be canceled immediately; we will not approve them and then be forced to cancel them later. Because we value and give play to the role of experts and scholars in the decisionmaking process, on the one hand, we have come to understand more deeply the advantages and disadvantages of Jiangxi's geographic location and its natural resources, and in turn, we have come to know much more about the province itself. On the other hand, it has enable Jiangxi to make some major decisions that are appropriate for the province and are scientific and which, in turn, have given impetus to and helped open up Jiangxi's once closed economy. It has further identified the ways to revitalize Jiangxi's economy and help the old liberated areas escape poverty and gain wealth as soon as possible.

As the reform and opening up make gradual progress, all sorts of complicated socioeconomic problems are also emerging. In order to make the correct decisions, we must combine the wisdom of the leaders and of the experts, the scholars, and the people. Because the leaders, the experts, the scholars, and the masses are of different positions and have different professions, they look at the same problems from different angles and at

different levels, and each has its own scientific approach. For this reason, when the leaders run into a major problem, prior to making a decision, they must do their best to extract and select what is useful out of the experts' and the scholars' suggestions. This not only gives play to the intelligence and wisdom of the experts and the scholars but also makes the leaders more capable and better workers as well as more effective leaders.

We must gradually institutionalize the democratic decisionmaking process. Experience in recent years makes us realize that we still have a lot of work to do if we want to find a permanent place for decisionmaking consultation and firmly establish the democratic decisionmaking system. First, we must continue to make the leaders at all levels of the government more aware of the democratic decisionmaking process and raise their level of consciousness. Second, we must formulate and perfect a set of fixed procedure and regulations to institutionalize this decisionmaking process and make sure that it is not just a formality. In addition, we must continue to seek out, through practice, processes that are even more scientific and standardized so that our decisionmaking can be even more democratic and scientific and the government can be even more efficient.

### Decisionmaking Process Praised

40050642 Beijing LIAOWANG [OUTLOOK] in Chinese  
No 29, 17 Jul 89 pp 10-11

[Article by Huang Qizhuang 7806 0366 8369: "Building the 'Pyramid' of a Scientific Decisionmaking Process"]

[Text] Inside Jiangxi's provincial government, a scientific decisionmaking "pyramid," built on the foundation of an intelligence colony, with the decisionmaking organs as its main structure, is slowly taking shape.

### The Governor Advances the "Theory of the Outer Brain"

The "theory of the outer brain," advanced by Jiangxi's Governor Wu Guanzheng [0702 1351 2973], has set a new task for Jiangxi's scientific decisionmaking process.

In the past, many of Jiangxi Province's decisions were made primarily with the leaders' experience, foresight, and wisdom—sort of, "hit the back of the head and came up with an idea." They were made blindly, haphazardly, and without scientific basis. Yet, modern society is becoming more and more scientific and socially oriented. Economic and social developments have made the new situations and new problems increasingly complicated. No matter how well-educated and knowledgeable, how smart and decisive the leader, he simply cannot comprehend the broad situation and the vast amount of information and grasp the very diverse and fast-growing professional knowledge by himself and make decisions the traditional way. One erroneous decision can cause irreparable damages. Faced with the new issues in Jiangxi's socialist constructions, the province's



leaders began to ponder the question of how to improve the decisionmaking process and avoid errors.

Upon summing up past experiences, Governor Wu Guanzheng advanced the "theory of the outer brain." That is, in order to minimize errors in decisions, it is far from enough to rely only on the leader's judgment, experience, and wisdom. It is necessary to get help from the "outer brain," which consists of the experts, scholars, and veteran cadres as well as the masses, and mobilize everyone's intelligence and wisdom to help the provincial government make decisions. Guided by this idea, in December 1986 the Jiangxi provincial government established the Provincial Government Decisionmaking Consultative Commission, comprised of experts, scholars, and practitioners. If the "theory of the outer brain" set a new task for building the "pyramid" of decisionmaking, then the formation of the Decisionmaking Consultative Commission is the first practical step in the transformation from the traditional to the scientific decisionmaking process.

#### **A Multilevel Decisionmaking Intelligence Colony**

Since December 1986, Jiangxi has continued to perfect its "pyramid" of scientific decisionmaking. Today, it is a decisionmaking intelligence colony of three levels: The first is the "fixed level," namely, the Provincial Government Decisionmaking Consultative Commission. It consists of eight professional and scientific groups: Comprehensive, engineering and communications, agriculture and forestry and water conservancy, finance and trade, business and economics, science and education and culture, ecology, and social development. There are a total of 93 members; they are either experts and scholars from the colleges and universities and research institutes or researchers from the practical work departments. It is a regular, multidiscipline, transdepartment, "integrated combat troop." The commission's studies may result in advice, a program for comparison with other proposed programs, a simulated policy, a methodology, or a countermeasure.

The next level of the intelligence colony is the "flexible level." Governor Wu Guanzheng, Vice Governor Jiang Zhuping [5592 4376 1627], and other provincial leaders have a group of friends who are forthright and not afraid to criticize them. Most of them are trained in theory and have practical experience. They can seek audience with the leading comrades any time or may be invited to advise the leaders or discuss issues with them in detail. This kind of association removes the boundary between the leaders and the followers, the superior and the subordinates.

The third level is the "proliferation level." This level comprises the activities to solicit the people's ideas and advice, particularly the "longzhongdui" drive for the revitalization of Jiangxi, which is organized by Jiangxi Province's Federation of Social Sciences, which acts as the central link. More than 580 modern-day "Zhuge Liangs" throughout the province have been moved by

the governor's sincerity in seeking out the worthy, and, in just over a year, they have offered 527 pieces of longzhongdui. Their suggestions fall into six categories: overall measures, reform measures, measures for opening up, industrial policies, personnel policy, and measures for the overall layout. Each category consists of several theories, 27 in all, such as the theory on the industrialization of agriculture, the theory on how to develop the province's advantages and create a favorable situation, the theory of how to seize the opportunity and launch an attack, and the theory on ways to catch up with the others.

This three-level intelligence colony has become the Jiangxi provincial government leaders' main source of ideas and knowledge. It is an indispensable link in the scientific decisionmaking chain.

Today, Jiangxi's provincial government has an unwritten "three no-decision" policy: For all major issues that concern the overall situation, no decision will be made without investigation and study, no decision will be made without the experts' counsel and discussion, and no decision will be made without getting at least two proposals for comparison. Since the end of 1986, the several major decisions made by the Jiangxi's provincial government were made only after repeated consultations and discussions.

#### **Turning Intellectual Wealth Into Material Wealth**

Although Jiangxi's "pyramid" of scientific decisionmaking is brand new, it has already demonstrated its tremendous effect. Not only has it prevented bureaucratic tendencies and arbitrary conduct, it has also made the decisionmaking process more scientific and democratic and has made the strategies and deployment as well as the policies and measures more practical.

As the coastal region turns to the export-oriented economy, being the "transition belt" between the coast and the interior, what should Jiangxi do? Leading comrades of the provincial government sought advice from their brain trust. Several experts, scholars, and veteran cadres wrote scores of council reports, and that gave birth to the provincial government's general policy of "support, take over, and keep up" to stay abreast of coastal economic development. A whole set of measures to complement that policy, such as the formulation of preferential policies to encourage foreign businesses and out-of-towners to come to Jiangxi to develop resources, the setting up of an economic experimental zone in southern Jiangxi, and the plan to set aside 5 to 7 years to wage a general war on agricultural development, has also been implemented. The general policy and the other policies and measures are already generating pleasing results. Within just 1 year after the formation of the Southern Jiangxi Economic Experimental Zone, the GVIAO [gross value industrial and agricultural output] has increased 13.3 percent, government revenue has increased 27.6 percent, there are 59.38 percent fewer unprofitable enterprises, and the province has attracted

and absorbed more than \$36.90 million in foreign capital. The "general war on agricultural development," which is based on the idea of "industrialization of agriculture" advanced by the experts and scholars, has long become a general movement participated in by the province's nearly 1 million peasants. Since last winter, the province has put 7.665 million mu of land under development.

#### Further Improvements Are Still Needed

Jiangxi's government has just take one big pleasing and steady step toward turning the traditional decision-making process into a scientific process. But the leaders are not resting content with what they have achieved so far. They are carefully reviewing their experience and working to improve the decisionmaking process and make it even more scientific and democratic.

They want to institutionalize the scientific decision-making process. The provincial government intends to establish a set of fairly strict decisionmaking procedures and a strict decisionmaking system. A rough draft has already been prepared and is being discussed and revised.

They want to perfect the system of consultation and the delivery, feedback, and evaluation of ideas and to further improve the management of the results of studies made by the intelligence colony. Specific personnel will be assigned, and special registers and stationery will be provided, to deliver the ideas and suggestions made by members of the consultative commission and society's intelligence colony and transmit the feedback to the originators of the ideas and suggestions.

The Provincial Government Decisionmaking Consultative Commission has also decided to publish its own journal, JUECE CANKAO [DECISIONMAKING INFORMATION], to promptly report the result of studies and suggestions and ideas of the members of the commission and the public to the leaders and departments concerned. Experts and scholars of different fields will be gathered to appraise and evaluate the results of multidiscipline studies.

### SOUTHWEST REGION

#### Tibet Reports on 1988, 1989 Budgets

90ON0097 Lhasa XIZANG RIBAO in Chinese  
12 Aug 89 pp 1, 3

[Article by Ping Cuo 1627 2238, deputy director of the Finance Department of the Tibet Autonomous Region: "Report on the Implementation of Tibet's Budget for 1988 and on the Draft Budget for 1989"]

[Text] Fellow deputies:

On behalf of the Tibet Autonomous Regional People's Government, I now submit a report on the implementation of the region's 1988 budget and on the draft budget

for 1989 to the second session of the fifth People's Congress for its consideration.

#### I. Implementation of the 1988 Budget

Under the correct leadership of the CPC Central Committee, the State Council, and the Tibet Autonomous Regional CPC Committee, all nationalities in the region implemented the policy of further stabilizing the economy and intensifying reform in earnest, adhered to economic construction as the focus, and gave pride of place to reform in 1988, making new progress in all undertakings and reforms. Since the fourth quarter, all units and departments in our region have unwaveringly fulfilled the spirit of the 3d Plenary Session of the 13th CPC Central Committee and have begun "rectifying the economic environment and restoring economic order," furthering the healthy development of the region's economy. The region's financial situation is also quite good because the economy continues to develop, the market continues to flourish, and the people's standard of living continues to improve.

According to the 1988 budget passed by the sixth session of the fourth autonomous regional People's Congress, net revenue losses totaled 22 million yuan and expenditures amounted to 898,090,600 yuan. In the course of implementation, the central government raised some loss targets and various special subsidies. Thus, the estimates were revised as follows: Net revenue losses, 29.25 million yuan; expenditures, 1,020,788,000 yuan. As it turned out, actual revenue amounted to 2.257 million yuan and the projected deficit turned into a surplus. Expenditures totaled 1,047.663 million yuan, or 102.6 percent of the projection. This yielded a surplus of 4.632 million yuan, including 14.943 million yuan in overspending at the autonomous regional level and 19.575 million yuan in surpluses at the prefectural and county levels.

The breakdown of revenues for 1988 is as follows: Industry and commerce taxes, 69.591 million yuan, 169.7 percent of the budgeted figure and an increase of 26.836 million yuan, or 62.8 percent, over the preceding year; state enterprise income taxes and regulatory taxes, 36.649 million yuan, 111.3 percent of the budgeted figure and an increase of 263,000 yuan over the preceding year; subsidies for losses by state enterprises, 127.354 million yuan, 116.6 percent of the budgeted figure and an increase of 30.485 million yuan, or 31.5 percent, over the preceding year. Other revenue totaled 15.188 million yuan, 379.7 percent of the budgeted figure and an increase of 1.834 million yuan, or 13.7 percent, over the preceding year.

Of the expenditures for 1988, capital construction funds amounted to 129.008 million yuan; enterprise potential-tapping and transformation expenditures, 10.62 million yuan; three categories of scientific and technical expenditures, 6,795,000 yuan; aid to agriculture and animal

husbandry and operating expenses for agriculture, forestry, water conservancy, and meteorology, 105.733 million yuan; industry, transportation, and commerce operating expenditures, 55.724 million yuan; culture, education, science, and health operating expenses, 134.172 million yuan; disability payments and social relief, 21.367 million yuan; administration and management expenditures, 56.372 million yuan; and other expenditures, 186.591 million yuan.

In implementing the budget, we also stepped up collection of funds for construction of key energy and transport projects and the issuance of treasury bonds. In 1988, funds collected for the construction of key energy and transport projects totaled 15.07 million yuan, of which 8.335 million yuan was turned over to the central government in accordance with government regulations and the remainder was retained and distributed among the localities. A total of 10.348 million yuan in treasury bonds was issued, 3.5 percent more than planned, thereby doing our part to balance the national budget.

Because governments at all levels tackled economic work aggressively and paid attention to and strengthened leadership over fiscal work, and because every finance, tax, and fiscal cadre worked very hard, we managed to balance the budget and end 1988 with a small surplus, despite strong demand in all quarters and a multitude of factors pushing up expenditures and losses. Now let me present the highlights of the implementation of the 1988 budget:

A. On the revenue side, we turned a deficit into a surplus: Net revenues were 2.257 million yuan. During the past 20 years, year after year this region spent what limited revenues it had to cover the losses of enterprises, and invariably ended up with a budget deficit. We were completely dependent on the state as the source of expenditures and other funds to make good the deficit. This situation has severely crimped regional economic development and all other undertakings. In recent years, as the central government has adjusted its financial subsidy policy for areas inhabited by national minorities, we have changed our philosophy of fiscal management. The guiding idea is that, although we continue to depend mainly on central subsidies, we should go all-out to develop the local economy, diversify revenue sources, and increase self-accumulation. Our finance and tax cadres have pursued such thinking in earnest, worked aggressively to tap and cultivate revenue sources, and to boost revenues, with notable results. Various categories of revenues have increased steadily year after year, while enterprise losses have declined. In 1988, we achieved a net revenues of 2.257 million yuan, a change from the string of net losses since 1968, laying a good foundation for the drive to continue to increase our region's fiscal self-sufficiency.

B. Actively promoted the enterprise contract management responsibility system and expedited the improvement of enterprise economic performance: According to incomplete data, in 1988 more than 130 enterprises in

the region, about 30 percent of the budget estimate, had already introduced some form of the contract management responsibility system. The implementation and popularization of this system has further inspired the initiative of agencies in charge of enterprises and the operators and workers in enterprises. The operational conditions of enterprises have improved continuously, as has their economic performance. In 1988, the region's foreign trade enterprises earned 34.92 million yuan in profits, an increase of 19.78 million yuan, 130.65 percent over the year before. Commercial enterprises in the region earned 33.58 million yuan in profits, an increase of 23.56 million yuan, more than 200 percent over the preceding year, and turned over to the treasury 18.72 million yuan in aftertax profits, also an increase of 200 percent compared to the year before. By and large, these enterprises have increased both output and revenues. Transport enterprises directly under the autonomous region's Department of Transportation turned a deficit into a surplus with a profit of 2.77 million yuan. As enterprises improved their profitability and increased the amount of revenue paid to the government, they have also been able to retain more and more profits, further enhancing their self-development capacity. For instance, transport enterprises directly under the region's Department of Transportation and commercial enterprises retained 6.12 million yuan and 15.93 million yuan in profits, respectively, in 1988.

Providing for the retired employees and workers of enterprises was made part of overall social planning in 1987. In 1988, the regional Department of Finance went one step further and appropriated 16.196 million yuan as a one-shot settlement allowance for enterprise personnel who retired before 1986, thereby lessening the burden on enterprises and supporting enterprise reform. Also, it contributed to easing the worry of retired personnel, calming the employees, and promoting unity and stability.

C. Energizing tax collection and management and increasing revenues: In accordance with the spirit of the State Council's "Decision on Tightening Tax Collection Discipline and Invigorating Tax Work" and that of the circular of the regional people's government concerning the invigoration of tax work, governments at all levels strengthened their leadership over such work. Finance and tax agencies at all levels implemented all tax policies in earnest and took a strictly legal approach to tax collection. A series of tax collection and management measures were taken. First, a pilot project in unified invoice management was launched in some towns and cities in prefectures and counties, thereby plugging some loopholes. Second, a tax review office was set up in cooperation with the procuratorate in Lhasa. Within this framework, some localities cooperated closely with agencies like public security and industry and commerce. By operating jointly, they did a good job in tax collection and review, reduced resistance, and ensured that work was done. Third, even as they aggressively went after large taxpayers, a majority of localities have stepped up

surveillance over sporadic sources of revenues, such as self-employed private individuals, particularly those who operated for limited periods of time. By intensifying the crackdown on smuggling and tax evasion, we have cut down on the amount of taxes lost through tax cheating. Fourth, even as we strengthened tax collection and management, with the cooperation of the news media we have increased publicity about tax laws to instill the idea of paying taxes in accordance with the law among taxpayers. Fifth, in accordance with the decisions of the State Council and the regional people's government, we have extended the reach of the farmland occupation and use tax and introduced a stamp tax. Through the combined efforts of all tax cadres, 120.13 million yuan in revenue was collected, up 337.25 million yuan, or 39.03 percent, over 1987, contributing to balancing Tibet's budget.

D. Controlling spending rigorously and curbing social institutional purchasing power stringently: To apply the spirit of nationwide belt-tightening, we set the funding targets of units and departments in accordance with spending targets and norms as early as the beginning of the year, when we prepared the budget. A rigorous examination and approval system was set up to curb conference spending. The number of conference participants and conference duration were limited. Conference participants must not be put up at tourist guesthouses or hotels. Meals served during a conference must follow set standards strictly. No liquor or drinks shall be served. A contract system shall be introduced for the travel expenses of officials within the country. To control and trim social institutional purchasing power, target management will be imposed on ordinary commodities. Departments and units shall abide by the controlled purchasing power targets. Commodities under special control shall be subject to special examination and approval procedures. In November 1988, the autonomous regional people's government issued the "Circular on Implementing the 'Decision of the State Council on Strictly Controlling Social Institutional Purchasing Power,'" expanding from 20 to 33 the number of special controlled commodities. We also stressed among the rank-and-file cadres the importance of promoting the tradition and style of arduous struggle and frugality. This has had a good influence on the drive to reduce spending and combat extravagance and waste.

E. Implementing the policy of "rectifying the economic environment and restoring economic order" in earnest and launching a general tax and price review: In accordance with the plans of the State Council and the autonomous regional people's government concerning the general tax, finance, and prices review, the autonomous region and all prefectures and municipalities have each set up a general inspection leading group and mobilized capable cadres to carry out the review. The general review has two outstanding characteristics. First, all departments at all levels executed it as an important part of "rectifying the economic environment and restoring economic order." They integrated the two

closely, reviewing even as they rectified and restored and plugged institutional loopholes. Second, the review was targeted. The general review office of the tax, finance, and prices agencies sent out five working groups to review the departments in charge in the various prefectures, municipalities, and the region's offices in Beijing, Chengdu, and Geermu. The general tax, finance, and prices review of 1988 turned up various breaches of the law, involving a total of 52.87 million yuan. Of 20.31 million yuan which should have been turned over to the treasury, only 18.266 million yuan, or 8.9 percent, was actually submitted. The general review was essentially completed by last April. Facts have proved that not only has the general review increased revenue and contributed to balancing the budget, but it has also been instrumental in rectifying the economic environment, restoring economic order, ensuring the smooth progress of economic reform, educating the broad masses of cadres to develop an overall point of view, and intensifying their sense of legality and sense of discipline, and further improving the social climate and party style.

F. Developing finance credit activities and putting treasury funds to flexible use: Treasury credit is a special form of managing revenues and expenditures under the socialist commodity economy. Given the fact that the region remains dependent on central subsidies for its income, it is of tremendous significance that we make the most of what limited funds we have. A number of steps have been taken in this aspect. For one thing, we have set up various kinds of finance revolving funds, replacing direct grants with payments that have to be repaid. Contracts have been signed with spending units under which the funds have to be repaid by a specified time. This practice increases the economic responsibility of the spending units and improves the efficiency with which funds are used. Second, we have used the inter-mittent funds formed by centralized appropriations and current accounts to make commissioned loans to bring about lateral economic associations. That way, we have increased the value of funds and enabled them to earn interest, thereby reducing invisible waste.

There are two points about the above report on the implementation of the 1988 budget that need to be explained.

1. The first concerns the increase of 30.485 million yuan in state subsidies to cover the losses of state enterprises. By introducing the contract management responsibility system, enterprises in our region have succeeded in improving both profitability and standards of management. The number of money-making enterprises has gone up year after year, while money-losing enterprises have decreased. The overall situation is good. On the other hand, some enterprises are still losing money because of mismanagement and the constraints of a number of objective factors. In addition, a major reason why losses have increased is that an additional 25.45 million jin of grain were shipped from the interior to the region to replenish grain reserves, thus pushing up the losses of grain enterprises by 1.05 million yuan and

raising local grain procurement costs by 2.26 million yuan. Second, the charges for transporting oil through the oil pipeline have soared, boosting the subsidies paid to transport enterprises to cover their losses.

2. Administrative and management expenditures rose 2.03 percent, or 3.117 million yuan, over 1987. Administrative and management expenditures were one of the targets of our drive to control spending. In recent years, particularly 1988, inflation has been a notable problem in China. Despite the efforts of governments and finance agencies at all levels, administrative expenses still exceeded the budgeted figure and were actually higher than the preceding year. The major reasons are: 1) Both the central government and the autonomous regional people's government have newly introduced a number of new policies and measures in the areas of prices and wages and compensation for employees. For example, some wages and job-related expenses have been adjusted, allowances for official travel have been raised, and book and newspaper costs have been increased, as have price subsidies for four kinds of nonstaple foodstuffs. 2) To build up the grassroots political machinery, expenses for township cadre personnel have been increased. In addition, management has been slack and the trend toward extravagance and wasteful spending has not been totally checked. Money is still being spent excessively and willfully.

Fellow deputies, the preparation and implementation of the region's 1988 budget ensured that funds needed for the normal operation of various undertakings and enterprises were available. It also ensured that funds necessary to implement various party and government policies were available, promoting national economic and social development. With central financial backing and in accordance with policies set by the regional CPC committee, we have ensured that funds were available for the antiseperation struggle and have done our part to bring about permanent peace, stability, and unity to the region. But even as we affirm our achievements, we must face up to existing problems. Under the new situation of reform, the open policy, and economic revitalization, we have not studied macro financial management adequately and coordinated reform measures are not keeping up. Funds have not been put to use in the most effective way. Financial supervision and fiscal management are lax. There were instances in which accounts were fabricated, appropriations were entered as expenditures, and bonuses and other payments in kind were issued indiscriminately. There have also been instances of extravagance and waste. Rectifying the fiscal climate and restoring fiscal order remains an uphill struggle. We must take aim at these problems and adopt effective practical measures to advance fiscal work steadily.

## II. Draft Budget for 1989

Under the existing financial system, the central government's fixed subsidies and special subsidies for our region for 1989 total 935.825 million yuan. After we

repeatedly reported our financial difficulties to the central government, the Ministry of Finance decided to increase its subsidies by an extra 40 million yuan, bringing financial subsidies by the central government for the region to 975,825 million yuan altogether.

In accordance with the central principle of rectifying the economic environment, restoring economic order, and intensifying reform across the board, and the policy of retrenchment, we adhered to the following principles in preparing the 1989 budget (draft): 1) Live within our means and do what we are capable of; 2) Increase output, practice economy, and turn a deficit into a surplus; 3) Be frugal, cut costs, plug loopholes, and reduce spending; 4) Support the development of agriculture, animal husbandry, education, transportation, and energy, provided funds are first made available to cover personnel costs and regular expenses, in order to ensure the smooth progress of reform.

With the financial resources mentioned above and based on these principles, we have prepared the following budget (draft) for 1989:

On the revenue side, a net loss of 30.57 million yuan is projected, an increase of 8.57 million over last year. The breakdown of revenues is as follows: Industry and commerce taxes, 41 million yuan, an increase of 5 million yuan, or 13.9 percent, over the preceding year; tariffs, 7 million yuan, an increase of 2 million, or 40 percent, over 1988; state enterprise income taxes and regulatory taxes, 32.11 million yuan, a decrease of 820,000 yuan, or 2.5 percent, from last year. Capital construction in chromium-producing areas has led to severe stripping, affecting output and sales. Planned subsidies to cover the losses of state enterprises in the plan are projected at 119.06 million yuan, an increase of 17.05 million yuan over the preceding year. The increase is accounted for mainly by the 14.89 million yuan increase in grain losses and the rise in losses resulting from the increased costs of transporting oil through the oil pipeline. Other income: 6 million, an increase of 2 million, or 50 percent, over the preceding year.

Expenditures are projected at 945.255 million yuan, an increase of 47.159 million yuan, or 5.3 percent, over the preceding year. Major expenditures are:

Capital construction: 100 million yuan, unchanged from last year's estimate.

Development funds to aid native handicrafts: 2.75 million yuan, unchanged from last year's estimate.

Three categories of scientific and technical expenditures: 5.5 million yuan, unchanged from last year's estimate.

Aid for rural production and operating expenses for agriculture, forestry, water conservancy, and meteorology: 118.09 million yuan, an increase of 10 million, or 9.3 percent, over last year's estimate. The increase constitutes mainly of additional funds to develop various undertakings, including 54.67 million yuan in assorted

agricultural support expenses in the region, an increase of 2.79 million yuan, or 5.4 percent, over last year's estimate. Emphasis is on increasing the number of counties that function as commodity-grain bases, subsidies for small farmland with conservancy projects, and operating expenses for animal husbandry.

Operating expenses for industry and commerce: 46.58 million yuan, an increase of 2.04 million yuan, or 4.6 percent, over last year's estimate, including 38.15 million yuan in highway maintenance spending which, together with 18.5 million yuan in road maintenance fees to be collected, will bring total road maintenance spending for 1989 to 56.65 million, an increase of 5 million yuan, or 9.7 percent, over last year's estimate.

Urban maintenance spending: 12.11 million yuan, an increase of 530,000 yuan, or 4.6 percent, over 1988, including 4 million yuan in special subsidies for prefectures and municipalities.

Operating expenses for education, culture, and public health: 242.03 million yuan, an increase of 8.96 million yuan, or 3.8 percent, over the 1988 estimate. The breakdown is as follows: educational operating expenses, 131.83 million yuan (including 2 million yuan each for enterprise-run schools and related educational spending), an increase of 4.07 million yuan, or 3.2 percent, over last year's estimate; and public health operating expenses, 60.19 million yuan, an increase of 270,000 yuan, or 0.5 percent, over the estimate of 1988.

Pensions for the handicapped or their families and operating expenses for social relief: 26.31 million yuan, an increase of 1.79 million, or 7.3 percent, over last year's estimate, including special natural disaster relief funds, 6 million yuan, grain price subsidies to hardship peasant and herdsman families, 2 million yuan, and aid to the poor, 3 million yuan.

Administrative and management expenses: 133.07 million yuan, an increase of 8.79 million yuan, or 7.1 percent, over last year's estimate, largely to cover the personnel costs of additional township cadres.

Procuratorial and legal expenses: 32.335 million yuan, an increase of 2.235 million yuan, or 7.4 percent, over last year's estimate, mainly to cover the personnel costs of the newly established department of security and to pay for public security equipment and facilities.

Other expenses: 120.61 million yuan, an increase of 8.154 million yuan, or 7.3 percent, over last year's estimate, including 10 million yuan to finance the popularization of the Zang language, 3 million in rural road maintenance fees, 3 million to subsidize the construction and repair of rural roads, 10 million to finance the county organ building program and to repair dilapidated civilian housing in towns and cities, 1.5 million each to implement policies and repair temples, 4 million as special policy funds in the three areas of Motuo, Ali, and Sanyan, and 20 million to finance grassroots political construction.

Total reserve funds amount to 28.07 million yuan, of which 18 million are earmarked for the autonomous region, unchanged from last year's estimate.

There are several points about the above budget that need to be explained to fellow deputies:

1. Net revenue deficit for the region is projected at 30.57 million yuan, an increase of 8.57 million over last year's estimate and an increase of 32.827 million yuan over the final accounts for last year. This projection is made primarily after taking into account a number of policy-related factors and the fact that many enterprises in our region are not operating normally and do not have steady incomes. Essentially, grain losses are projected at 14.89 million yuan. In addition, there will be losses resulting from the increase in oil pipeline freight charges. Also, a majority of the materials and commodities required for production and living in the region are supplied by the interior. In the process of creating a new commodity economy, those areas with a backward commodity economy are bound to suffer from price increases. Therefore, a drop in revenues is entirely possible. To make the budget more reliable and to avoid too large a gap between the draft budget and the final accounts, we have projected a net deficit of 30.57 million yuan.

2. We have projected expenditures to increase 47.159 million yuan over last year's budget and decrease 102.408 million yuan from the final accounts last year. Accordingly, most items of expense in this year's budget will be smaller than the final accounts for last year, with only a handful showing an increase.

3. The above spending projections are made based on the present financial system, prices, and relevant planning targets. The effects of wage and price reforms after they are unveiled—depressing revenues, increasing losses and expenditures—and the cost implications of internal personnel transfers have not yet been taken into consideration. Governments and finance departments at all levels should calculate carefully and budget strictly, practice economy, look for revenues energetically, and control spending rigorously. If necessary, adjustments should be made to the budget.

Fellow deputies, both revenue and expenditure projections for 1989 have been made with little room for error, particularly on the revenue side. In implementing the budget, we are bound to encounter some circumstances that will reduce revenues and increase expenditures, so balancing this year's budget promises to be an arduous task. Accordingly, the autonomous regional people's government has several times reported to the Ministry of Finance and asked for subsidy increases. Because of the string of deficits in the central government's budget in recent years, the financial position of the nation as a whole is also quite precarious at the moment. In the last 2 months, the political disturbances in Beijing and some other places escalated into a counterrevolutionary rebellion, thus worsening the nation's financial woes. Be that as it may, the central treasury still promised to give Tibet

a good deal of aid. Even so, clearly, it would be difficult in this situation to approach the central government for yet more subsidies. For this reason, all localities and departments must further the spirit of building up the nation and doing everything diligently and frugally. We must take the overall situation into account and appreciate the nation's financial straits. When we consider an issue or develop a project, our starting point should be self-reliance and arduous struggle. We should take firm measures and hold the budget within the region's financial means.

### III. Struggle To Achieve the Budget for 1989

In 1989 financial workers must conscientiously fulfill the spirit of the 4th Plenary Session of the 13th CPC Central Committee and that of the enlarged meeting of the Standing Committee of the autonomous regional CPC committee. With economic development as their overriding goal, they should uphold the four cardinal principles, adhere to reform and the open policy, continue to implement the principle of rectifying the economic environment, restoring economic order, and intensifying reform across the board, stick to the financial direction of socialism, and successfully execute the various undertakings in the budget under the leadership of the autonomous regional CPC committee. Specifically, they should accomplish the following tasks:

1. Aggressively look for revenues by developing social productive forces and the commodity economy. In view of the realities in the region, we should concentrate on the following areas which have considerable impact on revenues. First, continue the "double increase and double economy" campaign, tap potential, and increase profits. Second, step up tax collection work in earnest, operate in accordance with the law, collect taxes based on the tax rates, ensure the completion of tax collection responsibilities for the entire year, and work hard to over-fulfill the targets. Third, further implement and improve the enterprise contract management responsibility system and ensure steady increases in revenues. Fourth, make a major effort to produce export commodities and increase efforts to earn foreign exchange. Fifth, cultivate lateral economic associations and raise funds and foreign exchange in accordance with government policies.

2. Vigorously curb social institutional purchasing power and strictly control expenditures. Enforce the decision of the State Council that social institutional purchasing power be strictly controlled. Specially controlled commodities should be examined and approved strictly in accordance with regulations. Strict controls, in particular, should be imposed on the replacement of small cars by all units. When a specially controlled commodity is purchased without authorization, it should be confiscated or turned over to higher authorities as the case may be, depending on regulations.

Firmly reduce the number of miscellaneous conferences, including celebratory meetings, memorial meetings, and

commendation meetings. Tighten up the conference examination and approval system. Conference participants should not be allowed to stay at tourist guesthouses or hotels. No banquets should be held, no liquor or cigarettes should be served, and no souvenirs or quasi-souvenirs should be distributed. Spending on meals served during a conference should be limited in strict accordance with regulations. Any expenditures in excess of the permitted amount should not be forgiven by the finance department. Nor can the enterprise concerned include such expenses in its books as costs. Moreover, the unit that organizes the conference should be held responsible. Expenses incurred by an enterprise to pay for receptions and normal social functions should be listed as a separate item under enterprise management costs. However, they must be rigorously controlled and should be subject to yearend auditing.

Units that issue bonuses, payments in kind, allowances, and employee welfare funds indiscriminately, in violation of regulations, shall be required to deduct the portion in excess of the allowable limit from the worker's pay within a specified period of time. In cases where rents, water charges, and electricity costs are not collected in full or in part as regulations require, such payments shall be made retroactively.

The management of capital construction funds raised by a unit on its own should be stepped up. Finance departments at all levels should intensify the scrutiny of capital construction investments raised by a unit in accordance with the principle: "First collect, then review; first review, then spend." Institutions should vigorously offer services in return for payments, expand the scope of their operations, energetically look for revenues in accordance with policies and regulations, and cut spending. They should further disseminate the spirit of arduous struggle, hard work, and frugality, and educate the large number of cadres to set a good example by being honest, incorruptible, and law-abiding.

3. Intensify financial and tax reform and invigorate financial macro management. Reform is the engine of construction and work. The principal goal of tax and financial reform this year remains the development of social productive forces. The following tasks should be accomplished: First, further broaden the scope of the use of funds in return for compensation. Second, gradually set up different kinds of special fund feedback systems. Third, pilot projects should be organized to conduct separate checking, verification, and accounting of administrative and management expenses, operating expenses, and enterprise management fees. Income-generating institutions should experiment with the budget differential management system. Fourth, reform the existing industry and commerce tax system, using information derived from research. At the same time, finance departments must support production development by coordinating their activities with other aspects of economic structural reform.



4. Energize budget management and tighten fiscal discipline. Upon approval by the People's Congress at the corresponding level, the budget becomes legally binding. All agencies at all levels must enhance their budget consciousness and operate strictly in accordance with the budget. No unit shall add any new items that will cut revenue or increase expenses outside the budget as it pleases. Judging from the results of the general tax, finance, and price review last year, violations of fiscal discipline are commonplace and, in some cases, rather serious. We must pay close attention to this problem. Learning from the general review, we should continue to do a good review job on a day-to-day basis. Auditing departments at all levels should discharge their professional supervision responsibilities and select major departments and problems as targets of audit supervision, depending on changes in economic circumstances and the capabilities of auditing cadres. Cases should be properly investigated and handled for demonstration purposes. In accordance with the national plan, another general tax, finance, and price review should be organized at an appropriate time in the second half of this year.

Fellow deputies, we are now over 6 months into 1989 and half of the budget has been implemented. Now let me brief you on the implementation of the budget during the first half of this year.

During the first half of 1989, financial work in the region closely revolved around the CPC Central Committee's principle of "rectifying the economic environment, restoring economic order, and intensifying reform across the board," and on its retrenchment policy under the leadership of the autonomous regional CPC committee and the autonomous regional people's government. A lot of work has been done with a measure of success in organizing revenue, controlling expenditures, ensuring funding for priority projects, supporting reform, promoting the implementation of the enterprise contract management responsibility system, invigorating supervision and management, increasing revenue and cutting expenditures, and turning losses into surpluses. On both the revenue and expenditure sides, the budget was implemented quite normally.

From January through June, revenue regionwide totaled 15.24 million yuan. Compared to the projected deficit of 30.57 million yuan, this represents a 45.81 million yuan increase in revenue and an increase of 1.7 percent over the same period last year. Expenditures totaled 480.81 million yuan, completing 52.2 percent of the budgeted figure, an increase of 8.9 percent over the same period last year.

On the revenue side, industry and commerce taxes totaled 27.88 million yuan, 58.1 percent of the budgeted figure, an increase of 13 percent over the same period last year; state enterprise income taxes, 21.29 million yuan, 81.7 percent of the projection and an increase of 10.9 percent over the same period last year; and state enterprise regulatory taxes, 2.19 million yuan, 39 percent of the projection and an increase of 68 percent over the same period last year.

Other revenue totaled 10.29 million yuan, 171.5 percent of the budgeted figure and an increase of 15.4 percent over the same period last year.

On the expenditures side, capital construction spending totaled 70 million yuan, 70 percent of the projection; aid to rural production, 30.30 million yuan, 48 percent of the projection; operating expenses for agriculture, forestry, water conservancy, and meteorological departments, 30.26 million yuan, 55 percent of the projection; operating expenses of industry and transportation departments, 28.29 million yuan, 61.5 percent of the projection; operating expenses for culture, educational, and public health departments, 121.89 million yuan, 50.4 percent of the projection, including 68.27 million yuan in education operating expenses, 51.8 percent of the projection; and administrative and management expenses and public security, judicial, and procuratorial expenses, 90.064 million yuan, 54.4 percent of the budgeted figure. Other expenses were 72.306 million yuan, 59.9 percent of the projection.

Generally speaking, the implementation of the budget in the first half of the year was quite normal. On the revenue side, half of the projected industry and commerce taxes were collected. The budget was well executed regarding state enterprise income taxes and other revenue. On the expenditures side, appropriations were made at a normal pace, and major operating expenses and spending of a production nature increased over the same period last year, ensuring the normal progress of production and construction and institutional development. Nevertheless, many problems remain in the implementation of the budget, notably the laxity in certain areas of financial management and the fact that the financial system is not being followed strictly. Because of increases in prices and in interest rates on bank loans, funding is tight in all quarters and there is heavy pressure, going beyond what it can tolerate, on the finance department to increase expenditures and losses, cut taxes, and allow the units to keep more profits. Besides, numerous factors are at work reducing revenues and increasing expenditures, which makes it even more difficult for us to balance the budget this year. The financial situation we are facing remains very grim. If we relax a little, the net loss that we worked so hard for years to eliminate may reappear. For this reason, therefore, we absolutely must not be blindly optimistic and lower our guard just because the implementation was quite good in the first half of the year. We must do everything right in earnest in a no-nonsense manner.

Fellow deputies, the 1989 budget faces enormous difficulties. However, there are also many favorable circumstances. Provided we conscientiously live up to the spirit of the 4th Plenary Session of the 13th CPC Central Committee and that of the enlarged meeting of the Standing Committee of the autonomous regional CPC committee, collect revenues in earnest, and control spending under the correct leadership of the CPC Central Committee and the autonomous regional CPC committee, we may successfully implement the 1989 budget through the joint efforts of all levels, all departments, and all quarters.

### Open Letter to President Li

90ON0045C Taipei TZULI WANPAO in Chinese  
25 Aug 89 p 3

[By Huang Shun-hsing 7806 7311 5281]

[Text] My brother, Teng-hui:

Do you still remember what I told you a long time ago at the banquet held by a few close friends of ours to celebrate Chiang Ching-kuo's invitation for you to join the cabinet and take the post of Public Affairs Representative? Then I said, "From now on I won't speak to you as a brother any more, because I am the rival of the Kuomintang [KMT]. It won't be good for advancement of your political career if I continue to be friends with you." And since then we have had no contact except for twice when (you were governor of Taiwan Province then) you came to see me on official business and we had some good talks while I was working for the Chia I City government.

My brother, I didn't forget the goals and dreams we both had to develop the agricultural economy of Taiwan and to raise farmers' living standards. Your frankness, generosity, optimism, and poise often made me think about you. I can't forget the words I said to you at the last farewell banquet, "Though you are a KMT, I will be supporting you quietly as long as you don't forget where you come from or become corrupt in office."

Later, when the news media tried to predict who would be the possible candidate for vice president, at Yu Garden in Chang Hua City, Mr Keng Jung-shui [5105 2837 3055] of HSIN-HUO CHOU-PAO [HSIN HUO WEEKLY] and I decided that it was very possible that you would be the dark horse who caught little attention. I made such a prediction at that time, based on the following reasons: Compared with other possible candidates, you had some unique qualities and background not possessed by others. That is, you had no major enemy outside the party, plus you had a good relationship with the farmers, had no special connection with the financial sector, and had a clean history in your political career. Among these qualities, your good relationship with opposition parties must have been an important key in Chiang Ching-kuo's decision to choose you for the cabinet, because Mr Chiang Ching-kuo realized long ago that "go indigenous" is the only way for the KMT regime to revive itself. And for the future of the natives, the ruling party must be prepared to cooperate with the political groups that are not part of the mainstream party politics. Therefore, the successor would not be one of the traditional "loyalists" who had tried to curry favor by cursing the opposition parties.

After Chiang Ching-kuo passed away, it was natural for you to take the presidency, but it was because the opposition parties, mainly the Democratic Progressive Party [DPP], had much respect toward you that you were elected president of the KMT and you took the highest position and authority in Taiwan without any problem.

You yourself are certainly aware of this. It is the direct result of the unique background and good faith I mentioned before. Thus, I believe that the key to be a master is that one must be generous and careful.

Since early August, the Taiwan newspapers have reported that you frequently got involved in the fights for the yearend election. You might think there was nothing wrong with carrying out the policies of the party, but I sincerely disagree, for the following reasons:

There will be no fairness in a so-called election if the KMT, in the guise of a revolutionary party, still has total control over the election work and authority of the election supervisory board and monopolizes political resources, (we had the same opinion before you were elected to office). This doesn't exist in Western democratic political systems. So, it will be quite wrong if you think that it is all right for the head of the party as well as of the country to assist in the election like in Western countries because Taiwan is also a democratic political system. I hope you will think twice before going any further and, please, do not self-destruct your good faith.

Neither the people nor the natural resources of Taiwan are the property of any political party or any individual who flaunts the banner of serving the people. One can stand on the political stage only if he relies on the 20 million people in Taiwan and shares their burdens and joys. Isn't that our original dream and goal?

Furthermore, if the KMT really has the faith, determination, and confidence to open a new page in the democratization of Taiwan's politics, it won't be necessary for the KMT to be too picky about but a few posts that the president has influence (assuming he has such influence). It is more important for you, at this critical moment, to stand above others and strictly hold your superior leader's poise. If you can urge the government to follow the laws and regulations, and let everyone have a fair chance to run in the election, you will have the support of the candidates from both sides and their supporters, and everyone will follow your orders and work together to build a better Taiwan (including your home county, Taipei County). If this comes true, the people of Taiwan will always remember you and you will leave a beautiful mark in history. Then I, too, will feel honored to have been your friend in the early years.

Teng-hui, brother, do you remember that, at a luncheon banquet at the police station of Chia I City, I asked if you wanted a stronger drink, but you sighed and replied, "There is no way for me to take that much now. I still want to live some more years because I have 12 more years of responsibility to teach my little granddaughter." Recently I saw you in a newspaper picture. You took the granddaughter, who ran to you, in your arms immediately after getting off the airplane when you came back from Singapore. The happy scene of both grandfather and granddaughter made me think about the words spoke in Chia I, and for a long time I couldn't stop the tears running down my chin.

Care about China flourishing and, especially, care about the home country—Taiwan's future. You and I have the same expectations! I am hoping I didn't waste my time in writing this letter.

Best wishes for your political career and your health.

Sincerely,

Huang Shun-hsing

24 August 1989, at Peking Vacation Home

### **Premier Li Huan's Public Image Influences Public Opinion**

90ON0078A Taipei TZULI WANPAO in Chinese  
20 Sep 89 p 5

[Article by Wu Li-yen 0702 4539 1280, deputy research fellow, and Li Hung-lin 2621 7703 7792, assistant research fellow, of the Public Opinion Survey Foundation: "Has Li Huan Really Changed for the Better?"]

[Text] *In rating their approval of government leaders, the people in Taiwan are still influenced by the individual leader's overall public image. A leader's actual performance in government is not as important as his image as a person.*

*For those who approve of Premier Li's performance, it is hard to tell whether their approval is based on the major policies pursued by the premier or based on the premier himself as a person. But, for those who disapprove of Premier Li's performance, it is clear that their dissatisfaction is with policies and not personality.*

"Premier Li Huan's popularity has improved." A survey conducted by the Public Opinion Survey Foundation on 3 September, 3 months after Premier Li assumed office, showed a 16-point rise, from 50.2 percent to 66.2 percent, in the premier's approval rating since 2 June, the date of the last survey. Some media-conducted surveys showed similar results. But, by what standard did the respondents decide on "approval or disapproval?" Was it Premier Li's policy achievements, or his personal image? It is unlikely that answers to these questions can be found in simple percentage figures.

### **Popularity Surveys on Leaders Have Become Common Practice**

In the past 2 or 3 years, popularity surveys have been conducted on many central and local government leaders by government agencies, the media, and public opinion survey organizations. The uneven percentage ratings have evoked all kinds of discussions and comments. This phenomenon has gradually become a public opinion test of government leaders' performance. Naturally, the test is also indirectly putting a certain degree of psychological pressure on the leaders. The emergence of this supervisory force from outside the political structure is, of course, an encouraging phenomenon of the development of democracy. But, now that the public opinion polls are

definitely having an impact, isn't it necessary to more specifically define the criteria the people should use to appraise government leaders?

### **Survey Results Affected by Both Image and Policies**

Political studies show that the general public's appraisal of political figures, while directly influenced by the specific policies they pursue in their official capacities, is also affected by the overall impression they make on the public as individuals. This is a very common phenomenon in actual politics. The best example is U.S. President Ronald Reagan, whose personal charms were displayed to the full. In Taiwan's elections, candidates catering to the demands of voters also pay careful attention to cultivating their personal images. However, what is the relationship between personal image and policy success in the people's appraisal of government leaders?

In the survey published by the foundation on 3 September, tests were made simultaneously on major policies, including policies on social order, underground investment companies, and skyrocketing housing costs, and the premier's personal image, including his friendliness, courage, and attention to public opinion. As shown by the results of an analysis of the different categories of variable factors, those who are satisfied with the major policies on social order, underground investment companies, and skyrocketing house prices tend to approve of Premier Li's performance. At the same time, the people who regard Premier Li as friendly, courageous, and attentive to public opinion also tend to approve of his performance. These tendencies have all produced very noticeable statistical results.

However, an analysis of the people dissatisfied with Premier Li's performance shows that those who disapprove of the policy on underground investment companies and who regard Premier Li as unfriendly, lacking courage, and inattentive to public opinion tend to be dissatisfied with the premier's performance, but the same tendency is not found among those who disapprove of the major policies on social order and skyrocketing housing costs.

### **Criterion for Approval Hard To Determine**

With regard to the people who are satisfied with Premier Li's performance, it is hard to tell whether their satisfaction is based on their approval of the major policies or their approval of the premier as a person. But, judging by those who are dissatisfied, it is obvious that they disapprove of the premier not because of his policies, but because they do not like his personal character.

It is, of course, worth noticing that the percentage of people dissatisfied with Premier Li's performance has increased in the past 2 months from 1.1 percent to 8.3 percent. Then, from the above statistical analysis, it can be seen clearly that the people's evaluation of Premier Li's overall performance is determined more by his image than policies.

From in-depth statistical analyses, it can be seen that in evaluating their approval or disapproval of government leaders, people in Taiwan are still influenced by the leaders' personal appearance, and that the leaders' actual performance in government is not as important as their personal images.

#### **Division of Powers and Responsibilities Unclear to the Public**

Another point worth considering is that at present the division of powers and responsibilities between the president and the premier is not quite clear. Whether the premier should or can be held responsible for major policy decisions is really not clear to the general public. Under the circumstances, the people find it hard to attribute the government's successes or failures to the premier himself, and it is therefore unlikely for them to associate the evaluation of the major policies with the approval rating of the premier. This is also a factor which explains why in the public opinion survey the people's approval of Premier Li was to a fairly large extent influenced by image.

#### **Federation Holds Inaugural Meeting in Paris**

90ON0078B Taipei TZULI WANPAO in Chinese  
26 Sep 89 p 8

[Article by staff reporter Li Yueh-hua 2621 2588 5478: "Pitfalls on the Road Ahead for the Federation for Democracy in China"]

[Text] The inaugural meeting of the Federation for Democracy in China, held in Paris for 3 days, has ended. As the participants are leaving France to return to where they came from, they all know that this is just the beginning, and that the road ahead for the federation will be beset with difficulties.

Both the federation's initiators and the Overseas Chinese and students who came a long way to France for the inaugural meeting felt that the meeting must be made a success and must not be allowed to fail. They all looked forward to a great learning experience at this democratic gathering.

Yan Jiaqi [0917 1367 0366], who was just elected the federation's council chairman, said that if the meeting fails to proceed in a democratic way, it will mean the failure of not only the few initiators of the federation, but also of all the participants, and will be a serious disappointment to Chinese compatriots all over the world who are following the news about the federation closely only to be shown that the Chinese are incapable of democratic practices. Overseas Chinese representatives from the United States indicated that for the sake of the great cause of uniting the Chinese overseas to fight for democracy in China, they are all willing to make some sacrifices to ensure the success of the federation. In fact, seeing three generations of Chinese—old, middle-aged, and young—of different backgrounds and from different areas gathered together, working all night earnestly

(although sometimes too punctiliously) discussing the federation's proclamation and constitution, many present at the meeting were deeply moved and convinced that the overseas democratic movement has a bright future.

However, the road ahead for the federation is not without pitfalls. What worries some Overseas Chinese and Hong Kong participants most is that the federation may be manipulated and used by the Taiwan Government and become a tool in the struggle between the Kuomintang and the CPC. One Overseas Chinese representative told the federation's secretary general frankly that if this happens, the federation will not be supported by the Chinese overseas.

In fact, their worry is not entirely groundless. As pointed out by one participant, the activities of Overseas Chinese leaders with Taiwan backgrounds, Taiwan Legislator Li Sheng-feng [2621 0524 1496], and Taiwan media during the meeting showed Taiwan's active infiltration. The impact on the federation's future is still too early to tell. However, one Overseas Chinese is worried that the federation leaders are not yet experienced enough to deal with this kind of delicate political contest. He mentioned as an example that Li Sheng-feng invited Wan Runnan [5502 3387 0589] and Chen Yizi [7115 0001 6171] for a talk before his departure. The entire conversation was filmed by Taiwan's television stations. The showing of this footage on television will probably hurt more than help the federation's effort overseas to promote democracy in China. And, Yan Jiaqi and Wuer Kaixi have readily agreed to visit Taiwan, which also gives the CPC ammunition to make a big noise about it.

Lin Xiling [2651 1585 5044], an exile in France who calls himself a radical member of China's democratic movement, stressed that the federation's future line should be absolutely independent of both the Kuomintang and the CPC, and that in this regard the inaugural meeting has not been a complete success. One reason is that the young students abroad from Mainland China are more inclined to rely on Taiwan's help, thinking that only Taiwan has the power to accelerate China's democratization.

The federation's constitution stresses that all factional activities should be made public. As all participants were willing to make accommodations so that the federation could be established successfully, these internal conflicts of different opinions did not become white-hot. However, when the federation begins to work, how to harmonize the internal disagreements will be a major test for the federation's leadership.

In fact, there is already disagreement between the intellectuals and students on the question of the federation's main leading force. During the meeting, Wan Runnan personally tried to persuade more Overseas Chinese to join the federation, which showed that he attached great importance to the role played by the Overseas Chinese in the federation, particularly those from Hong Kong. The

Overseas Chinese are also leaning toward supporting the intellectuals as leaders of the federation. But some of the students from Mainland China, studying abroad or forced into exile, felt that students are being excluded from influential positions through a democratic procedure.

The conclusion of the tightly scheduled and tiring 3-day meeting marked only the beginning. The federation still has a long way to go.

On the last evening of the meeting, a boat trip on the Seine through Paris was arranged for the participants. The intellectuals and Beijing students in exile, Overseas Chinese from every corner of the world, and Chinese students studying abroad talked freely about China's democratic future. The younger generation of scholars, students, and Overseas Chinese began to sing heartily on the deck. An Overseas Chinese from North America, singing the *Man Jiang Hong*, was suddenly overcome with emotion and cried loudly. Hearing the song *I Am Chinese*, Wuer Kaixi stepped aside, choking with sobs. Both the Seine and the Chang Jiang have witnessed events and things happening on their banks for thousands of years. When can the descendants of the dragon enjoy the same democracy and freedom on pleasure boats on the Chang Jiang?

### Bank Policies Could 'Hurt' Economic Future

90OH0013A Taipei TSAI HSUN [FINANCIAL INFORMATION] in Chinese 1 Sep 89 pp 40-50

[Article written by Ch'iu Yunghan 6726 3057 3352 in August 1989 while in flight from Tokyo to Fukuoka: "The Taiwanese Central Bank's Erroneous Policies Are Going To Hurt Taiwan's Economic Future, and the Consequences of the Storm of Stock and Real Estate Price Increases Must Not Be Overlooked"]

[Text] All of the Asian countries that have longstanding trade surpluses with the United States, such as Japan, Taiwan, and South Korea, are experiencing a sharp upsurge in real estate and stock investment. Moreover, all of their governments are suffering the full consequences of being unable to stop this storm of real estate and stock price increases despite their efforts.

It can be pointed out in retrospect that the phenomenal real estate and stock investment craze that these countries are experiencing was not completely unpredictable. Take for example, Japan's trade surplus with the United States. Statistics show that Japan had a trade surplus with the United States of \$20.3 billion in 1981, \$18.1 billion in 1982, and \$31.6 billion in 1983. After increasing to \$55.5 billion in 1985 and even more sharply to \$93.1 billion in 1986, Japan's trade surplus with the United States was \$96.3 billion in 1987 and \$94.7 billion in 1988. If there is not a major change in this situation, Japan should certainly be able to maintain a trade surplus with the United States of over \$100 billion.

Since Japan began to liberalize its foreign exchange policy in its early years, it still shows a surplus even after using its foreign trade and other surpluses to make up its capital deficits. But since the Japanese lost their understanding of foreign investment and felt that it was unnecessary once they had achieved this huge trade surplus, Japan was shifting abroad an extremely limited amount of capital (including its outlay of long-term capital and foreign negotiable securities investment) by 1983 and 1984.

However, the U.S. dollar assets held by Japanese banks also increased quickly in the wake of the sharp increase in Japan's trade surplus. Since Japanese banks naturally could not lock up all of these U.S. dollar assets in their underground national treasury vaults, they sent some of them overseas to earn interest while also issuing Japanese yen to pay those who wanted to convert them into yen, as a substitute for issuing currency. In this system of issuing currency, the Japanese currency circulating within Japan would increase at the same proportion as the foreign currency held by Japan.

In summary, Japanese banks could transfer some of these U.S. dollars that the Japanese earned in the United States to overseas to bear interest, while not having to pay a cent of interest on these U.S. dollars that were used to issue Japanese yen. Since they could not reap such rich profits anywhere else in the world, they naturally indulged themselves and enjoyed it to the fullest. Everyone felt the same about this, and Taiwan's central bank was naturally no exception.

Countries with trade surpluses will generally have fund surpluses, which we can call "floods of money," when their regular surpluses, that are made up of trade and non-trade surpluses, increase quickly. All individuals or enterprises who love surplus funds will simply put them in the bank as savings when there are great floods of money and relatively few opportunities to invest them in facilities. But since banks are profit-making institutions that rely on making loans to earn interest, interest rates can only fall when fund supply exceeds demand and banks are pressured by difficulties in making loans. Moreover, when interest rates fall and surplus and idle funds are lying around, all banks will greatly soften their financing terms to reduce the money supply and readily accept loan applications from customers, regardless of whether the loans will be used to buy real estate or stocks.

Since I saw Japan's trade surpluses cause changes in the direction that its money flowed, I boldly stated 3 years ago in 1986 that "real estate prices will skyrocket soon" and "a storm of stock price increases will occur before long" in Taiwan. My basis for such an audacious prediction was the softening of bank loan terms caused by surplus idle funds that I mentioned above, and it happened exactly as I had predicted. From the perspective of the present storm of price increases on Taiwan's stock market, although the basis for my prediction was very simple, there were obviously quite a few people who

doubted it until it was confirmed, because the phenomenon is unprecedented and beyond the scope of most people's imagination.

When Japan had surplus idle capital lying around in 1971, 3 years before the oil crisis, Japanese Prime Minister Sato Eisaku made a proposal to "upgrade the Japanese Islands," which caused a fever of investment and a storm of price increases in Japan's real estate and stocks. In light of that experience, I predicted that "1971's conditions would recur." When they heard my prediction, some quick-reacting people immediately began to buy Japanese land and stocks, some of my friends even borrowed as much as 300-500 billion Japanese yen to speculate in Japanese land and stocks, and a storm of land and stock price increases centered in Tokyo began to occur shortly thereafter.

Although there was a great storm of speculation, it was really limited somewhat in Japan. This was because Japan had liberalized its financial management of foreign exchange relatively early and its civilian enterprises had previously transferred some of their surplus funds to foreign investment, which had eased some of the extra pressure on funds. Previous to the great skyrocketing of real estate and stock prices in Japan, investment in Japanese real estate actually earned profits of about 2 to 3 percent while investment in Japanese stocks earned profits as low as 0.5 percent. This was another factor that had previously spurred Japanese civilian enterprises to transfer some of their surplus funds to foreign investment.

The Zosen Corporation, which had long used protected cost income, was the first Japanese civilian enterprise that went abroad to invest its funds, mainly in U.S. government bonds. But it later sustained very large losses from its foreign investments due to the depreciation of the U.S. dollar. Japan's large real estate companies and individual investors followed the Zosen Corporation's lead and also began to invest money in U.S. real estate. At the same time, since Japanese industry was faced with huge operating pressures due to the depreciation of the U.S. dollar, Japanese enterprises that had suffered losses from exporting to the United States for a time, began to move their factories to the United States and carry on their production there. The good foreign investment climate and the flow of capital from Japan to the United States played direct roles in reducing Japan's trade surplus.

Due to the floods of money, the same conditions were certain to occur in Taiwan and South Korea as in Japan, the only difference being that they would come slightly later. South Korea is still burdened with a foreign debt of about \$40 billion. Thus, even though it has changed its trade deficit into a trade surplus, its fund surplus is certainly not as uncomplicated as Japan's or Taiwan's because it is under the burden of having to repay its foreign debt with interest. On the one hand, Taiwan has a small foreign debt; while on the other, a great many Japanese products are transferred to be produced in

Taiwan because of very high production costs in Japan. Thus, Taiwan will have the same kind of fund surplus as Japan as soon as it achieves a trade surplus.

In view of this, I issued the following warnings long ago: "If the foreign exchange that we earn is not put to full use, our accumulated excess foreign exchange will drown Taiwan in a powerful flood of money, just as the water from a reservoir will cause a flood when a dam breaks," and, "Thus, if we do not revoke our export restrictions and lower our tariffs as soon as possible, a great disaster will occur because we will be unable to reduce our trade surplus." It is a pity that since all the disasters that I warned against were new, unprecedented phenomena, and few people understood them. Thus, even though I issued these warnings again and again with good intentions, government institutions and civilian enterprises both turned a deaf ear to them and allowed the situation to develop without control because they did not have a real sense of the crisis.

Since neither the government nor civilian enterprises seemed to be able to take precautions and find outlets for the surplus funds, I predicted in an editorial in CAI XUN [FINANCIAL INFORMATION] that, "Whether we experience prosperity or a depression, Taiwan's land and stock prices will surely skyrocket." Considering Taiwan's conditions at that time, this was certainly a bold prediction. It disturbed even my colleagues in CAI XUN, who were afraid that it was inaccurate. However, subsequent events proved that my prediction was not wrong.

These skyrocketing land prices and this storm of stock price increases can be said to be the inevitable result of the huge, persistent trade surplus that had appeared. They were caused by too great an increase in exports and the government's seeming inability to take precautions to prevent too many exports. Thus, strictly speaking, the major responsibility should be borne by the government organizations that were unable to keep the situation from deteriorating.

If Taiwan sustains a trade surplus with the United States, the U.S. dollar will generally depreciate while Taiwan's currency will rise in value. As everyone knows, an increase in the value of Taiwan's currency will make it hard for exporters to do business. In addition, not working hard to reduce our trade surplus will cause an imbalance in our international payments and make our trading partners counterattack, protest, and call for a reduction in our tariffs, repeal of our import restrictions, and freer trade. Furthermore, in order to relieve the excess accumulated pressure on our foreign exchange savings base, it will be absolutely essential to liberalize our foreign exchange policy and allow Taiwanese people to freely send money abroad and invest overseas.

These kind of responsive measures should have been put into effect as soon as possible to effectively prevent future problems. But since the bureaucracy was hampered by conservatism and was slow in reacting to the

deteriorating situation, government departments felt quite helpless and were unable to keep land and stock prices from soaring. In other words, the governments' policy of proposing countermeasures only after stock and land prices actually skyrocketed was certainly too slow to resolve the crisis.

This is not hard to prove. For instance, a clear example is that government finance departments rushed to resume collection of taxes on the income from stock investment and tighten financing to cool down the stock market only after stock prices had already skyrocketed. Although these countermeasures were theoretically legitimate, certainly it cannot be shown that they were successful after they were put into effect. First, since the enthusiastic involvement of some legislative committee members in stock investment created a 100-million-yuan tax exemption because of the favorable terms, the collection of taxes on the income from stock investment along with those on general income actually violated the basic spirit of taxation. In addition, allowing taxes on the income from stock investment to be declared and paid along with those on yearly income, as well as not requiring them to be paid immediately, enabled vicious investors to use their money to pay their poll taxes and evade taxes at their leisure.

As to Japan's taxation of negotiable securities, in addition to stipulating that a 0.3-percent stock exchange tax must be paid when selling, those who opt for separate taxation must also pay stock exchange income taxes equivalent to 1 percent of the volume of the transaction. After adding another 1 percent service charge, there would basically be no profits to be made if stock prices did not rise considerably.

As far as I am concerned, if Taiwan wishes to prevent excessive stock speculation and stabilize stock prices, it should first reduce its tax rate for stock exchange taxes. As to stock exchange income taxes, it should avoid the tax complication of confusing indirect taxes with direct ones. It would be best to adopt separate tax collection forms for stock exchange taxes and stock exchange income taxes. Only this would be able to prevent tax evasion and make tax collection truly effective. In summary, it is undeniable that it has become a common practice for Taiwanese taxpayers to evade taxes. If Taiwan really wants to achieve the aim of preventing speculation, it should be able to do so easily and in keeping with the times by adopting the form of indirect tax collection.

We can both understand the desire of the government authorities, while also being able to infer that tightening financing for land purchases is a natural policy, to curb land speculation. But the most foolish of the many compulsory steps taken by the central bank was to suddenly raise interest rates 5 percent. All countries are very careful about raising interest rates. Even when raising their rediscount rates as little as 0.5 percent, the governors of their central banks call press conferences to

carefully explain the reasons for raising their rediscount rates, so as to enable their citizens to fully understand them.

But in Taiwan, the finance or economics departments can raise interest rates 5 percent without warning whenever they suddenly discover one day that the Taiwan money supply has increased too fast, or in order to curb land or stock price increases. I am afraid that if this kind of presumptuous action occurred in any other free country, the governor of its central bank would not be able to survive no matter how smart he was.

Since all who borrow from banks, and certainly not land or stock speculators alone but also producers, marketers, and those in service trades, rely equally on banks to finance their expansion, sudden large interest rate increases, such as the current one, can certainly punish land and stock speculators. But these kind of compulsory penalties certainly also victimize legitimate businessmen. In fact, the central bank's raising of interest rates certainly was not able to bring about a steep fall in stock and land prices, proves that the medicine obviously did not suit the illness.

In fact, most of the money that is invested in stocks and land is the people's own money, while very little of it is borrowed from banks. Since quite a lot of this money was converted into yen from U.S. dollars at the central bank, it can be freely deposited or withdrawn from banks without falling under central bank control because it is not financed by banks. In a word, this money can be said to be a surplus from exports. The government has no other methods it can use to control it permanently beyond providing policy measures to keep the trade surplus from continuing to increase and doing all it can to rationally use the foreign exchange that it possesses to ease the pressure of too many U.S. dollars.

Since theories are important because they can be coordinated with actual conditions, using the kind of "banking theories" that are in books alone to decide to raise interest rates, without checking to see if they are in line with actual conditions, will make it hard for exporters to keep from suffering. From another angle, if export enterprises go bankrupt because their overseas sales drop, the decrease in exports might help reduce the trade surplus, but will certainly not be able to prevent land and stock speculation. In all fairness, although the central bank did not really intend to pursue an erroneous financial policy, it is certainly a fact that the one that it did put into effect was wrong.

Although Taiwan's central bank tried in a sense to mend the fold only after a sheep was lost, since its law amendments were legislated completely according to legal procedures, it was generally considered to have had a legal basis for banning the illegal transactions of investment corporations. Since the government's announcement of its policy decision to ban the illegal transactions of investment corporations caused a steep fall in stock market prices, it can be inferred that the



funds absorbed by underground investment corporations at high interest rates of 30-40 percent were bound to be used for speculation. It is understood that such funds already amount to as much as 400 billion yuan.

There is no hiding the fact that such a heavy burden of interest payments being borne by investment corporations was bound to necessitate a constant influx of money to prop it up. Since investment corporations were fully aware of this, they constantly absorbed funds to keep their income higher than their expenditures, which caused the amount of idle funds they absorbed to snowball. In fact, since the concerned government departments knew this long ago and had allowed investment corporations to grow strong without control for many years, it is hard for them to shirk the responsibility for having permitted the investment corporation problem to

deteriorate to its present condition. Although the root of the matter is that earning foreign exchange is certainly a way to get rich, too many funds were accumulated in Taiwan because the government's foreign exchange and trade policies were wrong.

That conditions have evolved to such a point shows clearly that although the government's banning of the illegal transactions of investment corporations effectively controlled speculation to a certain extent, such high interest rates being maintained by banks certainly also curbed exporters' activities, and Taiwan's economy was bound to suffer when exports sagged. Although it is not known what actual plans the leaders of the central bank have made for Taiwan's financial situation, it is certain that their correctness will have a major effect on Taiwan's economic future.

**Government Predicts Record Emigration**

90ON0077A Hong Kong MING PAO in Chinese  
9 Sep 89 p 2

[Article entitled "The Hong Kong Government Predicts That, Fanned by the 4 June Incident, Emigration Will Reach Record Number—Beginning Next Year, Between 55,000 to 60,000 People Will Leave"]

[Text] MING PAO Special Dispatch—The Hong Kong government predicts that, fanned by the June 4 incident, emigration from Hong Kong will reach a record high. Authorities predict that total emigration next year will reach 55,000, and for the next few years, it will remain at a level of 55,000 to 60,000 people per year.

At a news conference yesterday, Lo Wei-Si [4151 4850 1835], deputy director of the Government Information and Unified Planning Office, told reporters about the latest emigration statistics released by the Hong Kong Government. He pointed out that the above figures have already taken into consideration the 4 June incident and immigration quotas set by various countries. But it is difficult to come up with reliable figures beyond 1990, because there are too many variables. For example, some foreign countries may revise their immigration laws.

Lo Wei-Si recently said that the Hong Kong Government has also begun gathering data on people who have returned to Hong Kong after receiving their foreign passports. According to a census taken by the Bureau of Statistics between April and June of this year, there are 160,000 people in Hong Kong who hold foreign passports. Of these, 110,000 are Filipino maids or other foreign-born residents who hold foreign passports; the remaining 41,000 people are possibly repatriated emigrants.

Lo Wei-Si emphasized that the figure may be understated and that it is premature to draw conclusions, because nationality is a sensitive subject and the people interviewed might have been less than candid. The authorities must take several similar surveys before it can offer reliable figures.

The Hong Kong Government's emigration statistics are based mainly on the number of applications for Certificates of No Criminal Conviction, the number of visas issued by the major countries of destination, and the net number of Hong Kong residents leaving Hong Kong, as supplied by the Hong Kong Immigration Service. Lo Wei-Si said that the Hong Kong Government has no plans to poll the citizens on their emigration plans, because it is a sensitive, personal matter and is not a project the government should undertake. The authorities will just have to rely on private organizations for information.

Lo Wei-Si pointed out that the number of people who will emigrate for traditional reasons, such as to reunite families, for better living conditions, and for further education, will remain at 20,000 to 25,000 people a year. Confidence in Hong Kong's future is an additional

concern. Restoring the Hong Kong people's confidence is the responsibility of the Chinese, British, and Hong Kong Governments.

**The 25-to-44-Year Olds Are the Largest Exiting Group—If Beijing Respects the Will of the Hong Kong People, If Britain Is Generous in Granting Right of Abode, the Hong Kong People Will Have More Confidence in Hong Kong's Future**

Lo refused to comment on whether recent opinions expressed by members of the Committee for Drafting the Basic Law in the mainland will further aggravate the mass exodus; however, he emphasized that if the Chinese demonstrate that they understand the Hong Kong people's sensitivity and concern and that they respect the Hong Kong people's popular will, it will restore the local people's confidence in Hong Kong's future.

As for the British side, Lo Wei-Si said that he is confident that, if the British Government handles the issue of the Hong Kong people's right of abode from a principled stand, more generous and more effective solutions can surely be reached, which will increase the Hong Kong people's confidence in the future.

But he criticized the fact that, so far, all British politicians have treated the Hong Kong people's right of abode as purely an Asian immigration issue; nobody has taken a principled stand. He pointed out that, for the last quarter century, every decision made by the British Government regarding the Hong Kong people's nationality had been made without consulting the Hong Kong people, and in the British Parliament, where these decisions were made, there were no representatives from Hong Kong.

Lo Wei-Si said the latest emigration figures have already taken some external factors into consideration. These factors include Britain's plans regarding Hong Kong residents' right of abode, which will be announced at a later date.

As for the Sino-international multilateral insurance plan being explored at present, Lo said that it must comply with some basic principles if it is to work to stem the emigration tide. The four basic principles are: Everyone, or as many people as possible, should be able to participate; the person concerned need not leave Hong Kong for the purpose of obtaining a foreign passport; the new citizenship must be a bona fide citizenship that gives the person the right to reside abroad; the immediate family members will also benefit.

Lo Wei-Si is confident that if the above-described international multilateral insurance plan can be worked out, it will have significant impact on Hong Kong's emigration figures, which will become evident by the early 1990's.

Currently, the types of people who are leaving are similar to those who have left within the past 3 years. A large percentage are independent professionals. This is in

contrast with the situation in the early 1980's when most people emigrated for the purpose of reuniting with their families abroad.

Information collected by the Hong Kong Government suggests that, with regard to age composition, a disproportionately large number are in the 25-to-44-year old group; the other age groups are a distinct minority; the 65-and-above group is particularly small.

With respect to level of education, in 1987, 18.7 percent of the emigrants were college educated; in 1988, the ratio had dropped to 15 percent. The number of college graduates emigrating in the last 2 years exceeds by far the number of new college graduates. But the authorities maintain that if we include the people who attended college abroad and have returned to Hong Kong, local and overseas college graduates as a group still outnumber the college graduates lost to emigration in the last 2 years by at least 3,000.

With respect to occupations, "professionals, technicians, and administrative and management personnel" make up 24 percent of the emigrants in the last 2 years.

#### **Need for Consensus on Future Political System**

*90ON0077B Hong Kong MING PAO in Chinese  
15 Sep 89 p 2*

[Article by reporter Li Hui-ling 2621 1979 3781: "Lee Kwok-pao 2621 0948 1405 Said, 'If the Hong Kong People Reach a Consensus on the Political System, It Will Be Accepted by the Committee for Drafting the Basic Law'"]

[Text] Recently, there have been many arguments between China and Hong Kong over the "consensus" issue. Lee Kwok-pao, who is a vice chairman of the Committee for Drafting the Basic Law and also a member of the Legislative Council, said that if the Hong Kong people can reach some kind of consensus on the political system, it will be accepted by the Drafting Committee. But the question of whether the Executive and Legislative Councils should exercise leadership in building this consensus is open to question. The following is an interview with Lee Kwok-pao by a MING PAO reporter:

Reporter: As vice chairman of the Drafting Committee and also a member of the Legislative Council, do you agree with the consensus proposal on the political system put forward by the Executive and Legislative Councils?

#### **Absent When the Proposal Was Put To Vote**

Lee: The two Councils held four meetings to discuss the consensus proposal, but because I had other business to attend to, I was able to participate in only one of the meetings, and I was absent when the proposal was put to a vote.

As a member of the Drafting Committee, many proponents of different political systems have discussed their

programs with me. At present, there are four major programs being advocated. Besides the consensus proposal, there are also the mainstream proposal, as detailed in the Basic Law (Draft), initiative "89," and Mr Lo Tak-Shing's [5012 1795 2051] "one committee, two councils" system. In my present capacity, I am not free to express support for any of the proposals. Personally, I am neutral.

Reporter: You seem to have left out initiative "190."

Lee: Right. It should be five proposals. But the proponents of initiative "190" never discussed it with me. As to why not, I have no idea.

Reporter: The Chinese Government has repeatedly criticized the consensus proposal as something peddled by Hong Kong's British Government. As an insider, do you share this feeling?

Lee: As I said, I have only attended one meeting and I am not familiar with the facts. But I do feel that, since the 4 June incident, the Legislative Council has been anxious to speed up the process of developing a political system. On this issue, there are disagreements among members of the Legislative Council, but not everyone has a great many ideas. The legislative members are under some pressure to exercise leadership in helping the Hong Kong people reach a consensus on the political system.

Reporter: Where is the pressure coming from?

Lee: It is just my personal feeling.

Reporter: Do you think that the Hong Kong people should reach a consensus on the political system?

#### **Whether the Legislative Council Should Be the Leader Is Well Worth Exploring**

Lee: The mainland has always expressed hope that the Hong Kong people will reach a consensus about the political system. After all, the future political system must be accepted by the Hong Kong people. But whether the Legislative Council should exercise leadership in building this consensus is still a question mark.

Reporter: Why shouldn't the Legislative Council exercise leadership?

Lee: I did not say that the Legislative Council should not.

Reporter: Then do you think it is proper for the Legislative Council to lead the people in building a consensus?

Lee: I think the Legislative Council has the responsibility to play the leading role, but whether they should go ahead, I am not sure. We should discuss it.

Reporter: Some groups that visited Beijing quoted the Drafting Committee as having said, even if the Hong Kong people have reached a consensus, the Committee may not necessarily accept it. What is your opinion?

Lee: I have read about it in the newspaper, but I am not treating it seriously. This supposedly has to do with the Drafting Committee, but the Committee has never made such statement.

Reporter: Do you think the Hong Kong people's consensus will have a constraining effect on the Drafting Committee? If the Hong Kong people reach a consensus on the political system, is the Drafting Committee obligated to accept it?

Lee: As a member of the Committee, I am convinced that it will be accepted.

Reporter: After several year's hard work, the Committee for Drafting Basic Law has set down several criteria for drawing up the political system, such as stability and prosperity and orderly progression. Specifically, what do these principles represent? In your opinion, do the five proposals you mentioned earlier violate the above principles?

Lee: These principles are vague. I cannot go into the specifics.

Reporter: How can the Hong Kong people find out if their proposals violate those principles?

#### What Constitutes Violation of the Principles?

Lee: I think you better ask Mr Ann Tze-Kai [An Zijie] [1344 1311 0094] (vice chairman of the Drafting Committee and chairman of the CPPCC [Chinese People's Political Consultative Conference].) You tell him, Lee Kwok-Pao does not understand. You ask him to explain. Personally, I do not think that any of the five proposals just mentioned violate the pertinent principles.

#### 'Accept Reality of Coexistence' With Mainland

90ON0077C Hong Kong MING PAO in Chinese  
27 Sep 89 p 27

[Article by Lo Tak-Shing 5012 1795 2052: "The First Step To Restoring Confidence"]

[Text] It is a common misconception that, because China is led and ruled by the Communist Party, it is the natural enemy of Hong Kong's people. This misconception is common among Hong Kong government officials at all levels and has long been enlarged and reinforced, whether intentionally or unintentionally, by a group of people whose ideologies and whose sense of mission have made them defenders of Hong Kong from the tentacles of communism. In the world arena that holds many different political thoughts, democratic ideals are, of course, often pitted against the practicalities of socialism. For 140 years, the Hong Kong people have been nurtured by a blend of colonial democracy fed to them by their colonial master. Furthermore, many a Hong Konger had the experience of resisting the communists before moving to Hong Kong. No wonder Hong Kong is seeing China through the eyes of its foster parent and is treating China as its enemy.

#### Hong Kong Is Not China's Enemy

The truth is, this deep-water harbor and modern cargo and passenger stop is China's southern door to the world. The foreign exchange China earns through Hong Kong is a valuable supplement to its meager treasury. As the window to the West, Hong Kong supplies China with political ideologies, advanced science, and all kinds of information. As a natural training ground, Hong Kong helps to put China's government onto the road of progress and modernization. Because of Hong Kong's strategic location, it can help promote commerce, peace, and understanding in the Pacific rim. These are the things that made Hong Kong valuable; none of them violate China's pragmatic socialist ideals.

#### Nor Is China Hong Kong's Enemy

Throughout the entire history of the PRC under the leadership of the Communist Party, China has made every effort to help Hong Kong prosper. The shipping of food, labor, and water to Hong Kong is the best example. In entreport trade, China has provided Hong Kong with a market of over 1.1 billion people and incomparable trade benefits and growth potential. China has also put southern China, a growing market, exclusively in the hands of the Hong Kong manufacturers, making Hong Kong the envy of all industrialized nations. Furthermore, the nearby SEZ's [special economic zones] have provided Hong Kong entrepreneurs with cheap land and labor.

China has been Hong Kong's defender and friend for the last 40 years. At the border, the People's Liberation Army [PLA] effectively prevents the 1.1 billion "peace-loving and 'emptyhanded' patriotic fellow countrymen" from pouring into Hong Kong and taking a share of Hong Kong's prosperity. If not for the PLA, the Gurkha Infantry Battalions and the Royal Hong Kong Police would obviously be inadequate to protect our border if anything drastic should happen in China. Even with the help of the PLA, Hong Kong must maintain a rigid policy of sending back all illegal immigrants from China—at times, without balking at separating mother and child, husband and wife. No doubt, Hong Kong and China share the same interests. This mutual interest is not shared between Hong Kong and any other country. In industry and commerce, Hong Kong competes with the other Asian "dragons." Culturally, Hong Kong is a part of the Chinese culture. If Hong Kong were colonized by any other powerful nation (such as the United States or Japan), it would be used, ideologically and commercially, against China, as a part of that powerful nation's comprehensive strategy. To image that these countries would protect Hong Kong's interests is but to deceive ourselves.

#### Hong Kong's Road to Self-Destruction

To mistake Communist China as Hong Kong's enemy is indeed damaging. A large part of Hong Kong's political strength is spent on resisting China, keeping it as far away as possible; but, suicidally, we have also involved

ourselves in China's internal political disputes. Some people are chanting "down with the Chinese Government." They say they want to turn Hong Kong into the center of democracy and resistance against communism; they say they want to spread the fire of democracy and anticommunism throughout China. At a time when the two countries most need cooperation, the British Government has refused to participate in the Sino-British Joint Liaison Group meetings, exacerbating the already strained Chinese-Hong Kong relations. This is a senseless act; it is like adding fuel to the fire or dropping stones on someone who has fallen into a well. It can only take Hong Kong onto the road of self-destruction.

Lost and bewildered, Hong Kong is neglecting the one thing it most urgently needs to do. What have we done to educate the younger generation about the new suzerain state? What have we done to encourage and assist government functionaries to adapt to the suzerain state of the post-1990 era? What have we done to help the public understand China's needs, hopes, and fears?

#### **We Must Accept and Understand the Reality of Coexistence**

At a time of widespread misconceptions, anyone who bucks the trend and associates with China will immediately be discredited. Any Hong Kong official who makes any contact with a Chinese official will be suspected of collaborating with the enemy, and if he or she fails to report the incident to the higher-ups, it could mean

trouble. But in fact we very much need to establish some kind of communication with China during this transition period, and communication can be established only if there is mutual respect and trust. Recently, members of the Committee for Drafting the Basic Law refused to come to Hong Kong for meetings. This demonstrates that there is no mutual trust and respect between China and Hong Kong to facilitate any kind of communication.

We must replace the misconception that China is our enemy with the basic concept that China and Hong Kong share the same mutual interests. It will not be easy to convince the Hong Kong people, who grew up with colonial democracy, to accept the reality that they must coexist with socialist China, even though this coexistence is really under the condition of "one country, two systems." Theoretically, how do we make democratic thoughts coexist with communist ideologies and still preserve the kind of individual independence and freedom found in a capitalist society? How do we make communist ideologies coexist with democratic thoughts and still protect the territorial integrity of a socialist country from the interference of capitalist ideologies? No matter how difficult, these issues must be resolved. I sincerely warn everyone that we do not have 7 and 1/2 years' time to look for the solutions. If we fail to find the answers soon, we will have no hope for recovery. Finding the solutions is the first step to recovery. I hope that we take this first step very soon.